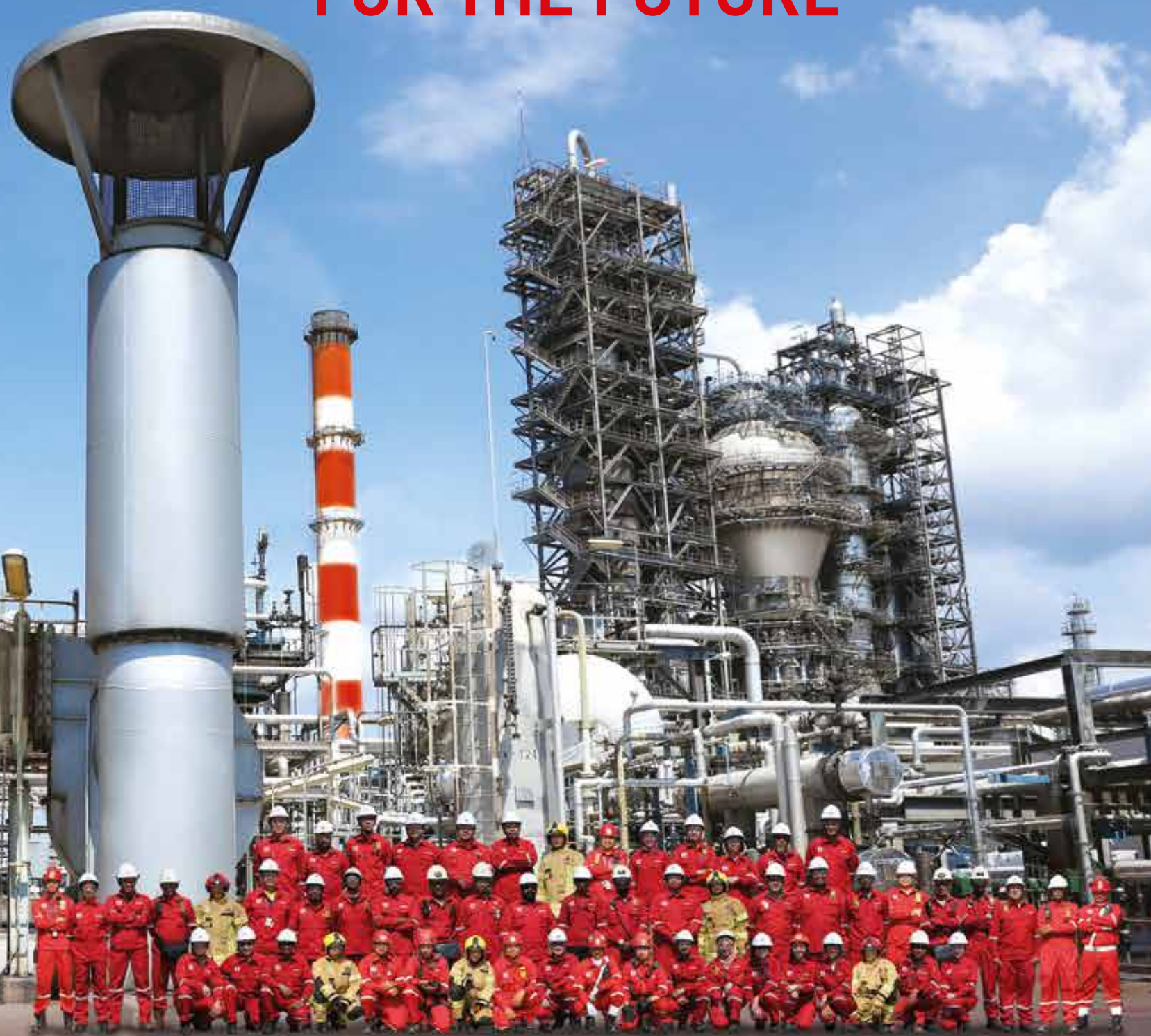


INVESTING FOR THE FUTURE



2018 ANNUAL REPORT

Hengyuan Refining Company Berhad

(No. 3926-U)

ABOUT THIS REPORT

This annual 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. This report will also provide insights into our business strategy and future prospects in a timely, transparent and easy to understand manner.

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 2018 to 31 December 2018 and encompasses all material developments concerning HRC up until the approval of the annual financial statements.

Our report focuses on Hengyuan Refining Company Berhad (HRC) as a Company and our operations in Port Dickson. 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 Listing Requirements of Bursa Malaysia Securities Berhad.

Our financial statements have been audited by Messrs PricewaterhouseCoopers PLT, whose unqualified report is available on pages 77 to 82.

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



INVESTING FOR THE FUTURE HERE TO STAY...HERE TO GROW.

Hengyuan Refining Company Berhad (HRC) is committed to deliver long-term value to its stakeholders. In 2018, we renewed our investment in our assets and facilities with a successful major turnaround and continued to engage positively with our stakeholders in uplifting the lives of our surrounding community. The major turnaround, the largest in our history, is a milestone on our journey towards future sustainability. It was completed to exemplary standards ahead of schedule and within budget, while ensuring responsible corporate citizenship in serving the Port Dickson community.

This is a testament to our commitment to stay and grow at our present premises, and represents only part of the RM1.7 billion total investment that the Company has approved for projects planned for execution within the period from 2017 to 2020.

WE APPRECIATE YOUR FEEDBACK



In advancing our commitment to better reporting, we intend to enhance our engagement process with our stakeholders. We thus welcome stakeholders' feedback and will attempt to provide further clarity to our disclosure topics, where necessary. Please send your comments, suggestions and feedback on our business, sustainability practices and reporting via email to hrcpd-corporate-affairs@hrc.com.my.



NEW FEATURE IN THIS ANNUAL REPORT

The Online version of Hengyuan Refining Company Berhad's 2018 Annual Report and 2018 Sustainability Report are available on our website. Please visit www.hrc.com.my or scan the QR Code to download these reports. We value your feedback and welcome any comments to improve our future reports.

SCAN THE QR CODE BY FOLLOWING THESE SIMPLE STEPS



Download the 'QR Code Reader' on App Store or Google Play



Run the QR Code Reader app and point your camera to the QR Code



Get access to a softcopy of the Annual Report

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HERE TO STAY...



“ We have no concerns when it comes to any issue ...because I can easily approach HRC’s community liaison anytime for immediate attention. ”

Mr Puspanadan Ramaya

Retiree, Resident of Taman Toh Kee Kah

A member of HRC’s fenceline community, he stays within one km of the plant

“ HRC’s Graduate Programme provides us with the opportunity to learn and experience different scopes of work through role rotations. ”

Najmi Taib, Ayuni Zaidi, Lila Balasubramaniam and Daniel Lee

HRC Graduates, 2018



“ A ‘Reliability Mindset’ is part of our corporate culture. We promote individual accountability and collective ownership of reliability issues in every facet of asset management. Our people are encouraged to participate proactively in our asset integrity management activities. ”

Wan Hadzreel, Reliability and Rotating Equipment Section Head



“ Being a good neighbour requires us to create a positive socio-economic impact for our community. By working together we also forge closer bonds and create better understanding. ”

Fauzi Othman, HRC Government Relations Advisor

“ We place high importance on the safety of all those impacted by our operations, including our workers and surrounding communities. ”

Zackaria Abdulah, HRC Quality, Health, Safety, Security and Environment Manager



“ I have worked here for almost 31 years and seeing my son join the same company with me and build his skills and career in this company is one of the proudest moments in my life. ”

Azreen Ong
Senior Administration Superintendent Operation

...HERE TO GROW

Revenue 

RM **11.2** billion

Profit After Tax 

RM **30.8** million

Over **99%**

success in on-time deliveries and quality requirements



Completed MTA 2018

ahead of schedule with savings of



USD **4.46** million

**AT A
GLANCE...**

5.6 million 

man hours without

Lost Time Injury

as at 31 December 2018

Zero work-related

fatality record for over

25 years 


FIRST

operating refinery in Malaysia to achieve

ISO 45001:2018 

(Occupational Health & Safety Management Systems)

Investing for the future, large projects on track;

- Euro 4M Mogas 
- Euro 5 Gasoil
- Clean Air Regulation (CAR)
- H2GEN

EII energy efficiency index 

4-point Improvement

after MTA 2018

Worker to worker



Unsafe Act Interventions

improved

3fold

NOx Emissions

reduced by

14%



per million barrels from 2017

SOx Emissions

reduced by

26%



per million barrels from 2017

TOTAL



Waste Generated

reduced by

3%

from 2017



INVESTING FOR THE FUTURE

Dear Shareholders,

During 2018, HRC continued to build on the foundations laid in 2017 to invest for a long term, profitable future. Despite the many challenges that occurred during the year, we emerged on a strong footing.

CHAIR STA

We successfully completed the longest, most complex turnaround in the refinery's 56-year history, reached Final Investment Decisions on several major projects to ensure our long-term sustainability, and weathered historically low margins and volatile crude prices amidst an unpredictable global geopolitical and industry climate.

I am pleased with the progress we have made in the past year and confident that HRC is building capability and capturing all opportunities to enhance our future profitability.

I would also like to humbly thank all our shareholders for your support and assure you of our ongoing commitment to maintain the highest business principles and ethical standards, fulfill our environmental and social responsibilities and deliver an attractive long-term return on investment.

On behalf of the Board of Directors, I am pleased to present the 2018 Annual Report of Hengyuan Refining Company Berhad (HRC).

I would like to share details on some of HRC's notable achievements in 2018.

In 2018, the financial performance also reflected the planned 11-week Major Turnaround during Q3. Although the turnaround was a significant success by all measures, the refinery's production and revenue were minimal during the period.

We could not mitigate these effects completely and the full year 2018 results show only a small profit. The turnaround places us on a stronger footing to operate safely, reliably and profitably as we execute our commercial strategy.

We made good progress on all other fronts too. On 6 October, HRC reached 5 million hours without a Lost Time Injury (LTI) and at the end of the year, we were at 5.6 million. This and many other Health, Safety and Environment measures are the outcome of our deep and ongoing commitment to the safety of our people.

We have built and significantly strengthened the reliability and process safety legacy from the refinery's former major shareholder, Shell. We have also added controls for good governance and are improving business processes for operational efficiencies.

I am happy to announce that we are now the first refinery and only the second company in Malaysia certified for the new ISO 45001: 2018 (Occupational Health & Safety Management Systems). We also achieved certification for ISO 27001 (Information Security Management Systems) and our operation and business risk management continued to be guided by ISO 31000 (Risk Management). I see these accreditations as a testament to our integrity, good standards of corporate governance and disclosure practices.

MAN'S TEMENT

WITHSTANDING THE CHALLENGING ECONOMIC LANDSCAPE

During 2018, the refining industry was impacted by volatile crude prices caused by geopolitical factors and an oversupply of products in the Asian region coupled with weak demand in all the major economies. These events created a second half year period of very low refining margins for the industry worldwide which has continued into early 2019. HRC could not avoid this impact entirely, however I am pleased to advise that a combination of excellent refinery operating performance and successful hydrocarbon hedging has significantly reduced the financial impact.

POISED FOR GROWTH

The highlight for the year was the successful completion of the Major Turnaround (MTA 2018) on 21 October 2018, two days ahead of schedule, significantly below budget and with a good safety performance. This was a huge effort with the site workforce peaking at nearly 3,000 workers and has laid many foundations for the future. Shareholders may be pleased to note that although this was considered a mega turnaround by international benchmarks, HRC staff, contractors and specialist support achieved this success without external turnaround management assistance, which has been noted by the industry and reflects well on HRC's capabilities.

In addition to the maintenance and inspection scopes, the ATLAS II Project for the rejuvenation of our Long Residue Catalytic Cracker (LRCC) regenerator top dome and internals together with all piping tie-ins required for the major projects were completed. The tie-ins will allow those projects to be completed as scheduled during 2019 and 2020 without significant outages of the operating refinery.

CHAIRMAN'S STATEMENT


MTA 2018 HIGHLIGHTS

 **Ahead of Schedule**

With over **3,000 workers** on site during construction peak period



 **USD4.46 million**
Below budget

 **No Lost Time Injury (LTI)** recorded

As a result of the successful completion of MTA inspection scope, the Department of Safety and Health (DOSH) extended the operating licence period between inspections from the usual 36 months to a maximum of 75 months. This extension will allow a significant reduction in operating costs going forward.

In 2017, the Board of Directors approved the development of four strategic investments to enable HRC to comply with various regulatory requirements and support a sustainable business in the long-term. During 2018, the Clean Air Regulation, Euro 4M Mogas and H2GEN projects all reached their Final Investment Decision milestones and have since commenced detailed design and construction. The Euro 5 Gasoil project scope was finalised and the project is underway. All projects are on track to commission as planned.

HRC has also been active in many other initiatives to expand our customer base and increase refining margins even when the wider market margins are tight. Several of these efforts, such as term deals with new suppliers, have already born fruit and we are confident these will continue to deliver additional value to our



Major Turnaround 2018.

business during 2019 and beyond.

Over the next two years, HRC will maintain its focus on completing the capital investment programme, operational improvements, cost and margin enhancements and commercial opportunities to deliver value to all our shareholders.

DELIVERING ON PROMISES

As we refreshed our assets, we also refreshed and strengthened ties with stakeholders and built trust and assurance with key regulatory authorities, our bankers and our customers. Our commitment to remain a Malaysian company with an international focus by developing local talent and enhancing diversity continues; 99 per cent of HRC's 446 staff are Malaysian and 39 per cent of our Management Team is female.

We have restarted our Graduate Programme to develop a pool of future leaders and we remain a prominent employer within the Port Dickson community. By providing viable jobs within the state, we aim to help the community thrive and ensure our HRC family roots remain grounded and intact. HRC is proud to have employed three generations of Malaysians and looks forward to employing the fourth.

During the year, we successfully secured new customers and suppliers while we continued to consolidate our established relationships. We are constantly seeking good commercial partners for long-term symbiotic connections to build and strengthen our company as a significant and reliable supplier to the Malaysian market.

DIVIDEND POLICY

As I mentioned above, crude prices and margins in 2018 were extremely volatile due to industry wide geopolitical and market forces. As an example - Brent crude price plunged 40 per cent in Q4, to the lowest price since 2015. The Asian market has been oversupplied with products, depressing refining margins.

During 2019, we also expect to pay the bulk of the investment in our major projects which will be sourced from a mixture of own cashflow and debt.

Projects approved to comply with regulatory requirements:

- ✓ Clean Air Regulation
- ✓ Euro 4M Mogas
- ✓ Euro 5 Gasoil
- ✓ H2GEN

STAFF COMPOSITION



99% Malaysian
1% Non-Malaysian

MANAGEMENT TEAM



39% Female
61% Male

MOVING AHEAD

2018 was a year of preparing the company for the future. The years of 2019 and 2020 will see consolidation and project completions.

During the next two years, the focus of the Board of Directors and the Management Team will be firstly to continue ensuring the safety of everyone who works for us, and that our environmental impact remains minimal following our Health, Safety, Security and Environment and Process Safety programmes.

We will also focus on streamlining HRC for greater profitability with a combination of improved reliability, operational excellence and cost control, enhancing governance, margin capture, hydrocarbon and forex hedging, developing new customer channels, completing the Clean Air Regulation and Euro 4M major projects while progressing the Euro 5G and H2GEN projects for completion in 2020.

Underpinning these activities is our ongoing adherence to our General Business Principles, good governance, environmental protection, community engagement, international technical and engineering standards, management of technical and financial risks and compliance with all relevant Malaysian laws and regulations.

Moving forward, we aim to maintain and build our reputation as a preferred partner for our shareholders, customers, employees and those with whom we do business, as well as society and the future generations.

HRC STANDS BEFORE YOU AS A COMPANY REVITALISED

Our achievements this year testify to the outstanding commitment and performance of our management team and staff. On behalf of the Board of Directors, I would like to take this opportunity to record my appreciation to all of them for their hard work and discipline in tackling a very challenging year. The Board's gratitude extends to our valued shareholders and all stakeholders for their steadfast support and confidence in HRC. I look forward to another year of progressive growth with all of you.

Wang YouDe
Chairman

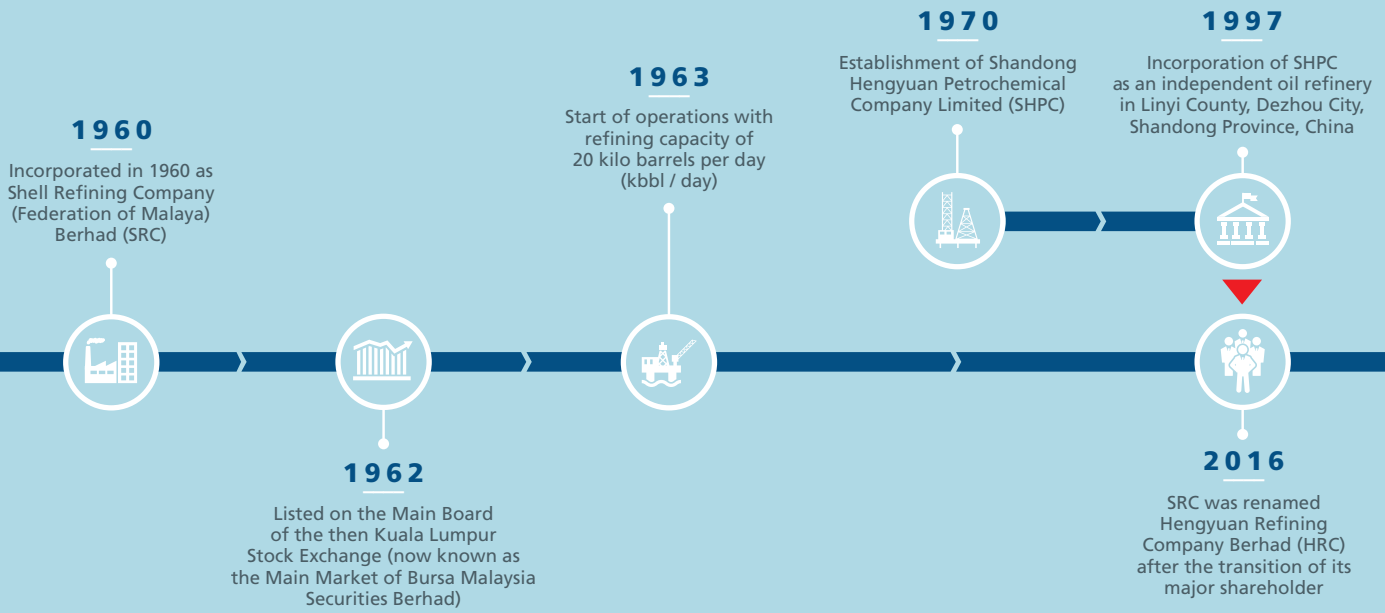


Project ATLAS II – Replacement of LRCC regenerator top dome.

The Board of Directors' view is to maintain a conservative set of assumptions in cashflow forecasting and other reviews as required by the Companies Act 2016. Hence no dividends were declared for the financial year ended 31 December 2018. The Board of Directors will review the dividend prospects as the year progresses taking into account the long-term financial strength of the Company and value creation for its shareholders.

In the longer term, we expect HRC to be in a position to further increase shareholder value.

OUR HERITAGE



Hengyuan Refining Company Berhad (“HRC” or “Company”) has played a dynamic role in Malaysia’s economic and social fabric since its establishment over five decades ago. Established in 1960 as Shell Refining Company (Federation of Malaya) Berhad, our Port Dickson refinery is today a landmark operator that supplies a significant volume of the country’s oil and fuel needs. We are one of the largest economic contributors to the state, and have provided employment to three generations of the surrounding community. As a responsible operator, HRC consistently contributes to economic, educational, environmental, safety, social and welfare initiatives in the country.

From a single crude distiller with an operating capacity of 20,000 barrels per day, HRC today has grown to be a complex refinery with a licensed capacity of 156,000 barrels per day, making us the second largest refinery in Malaysia with a long and proud heritage. Our employees are predominantly Malaysians, supported by some international staff. The overall team has a very wide range of experience and skills.

Reflecting our vision to be a top performing and admired refinery in Asia, we executed a major statutory turnaround in 2018 (MTA 2018) and also replaced the top dome and catalyst separation system of the Long Residue Catalytic Cracker Unit’s (LRCCU) regenerator reactor (ATLAS II). These two achievements ensure the refinery’s competitiveness, safety and reliability, and compliance with the legislative requirements of the Department of Occupational Safety and Health (DOSH) Malaysia.

Investing to be future ready, we have also initiated two major upgrading projects. The first project, EURO 4M Mogas, enables the refinery to produce EURO 4M grade petrol. The second project, Euro 5 Gasoil enables the refinery to produce EURO 5 grade diesel. Both projects are required to meet specifications mandated by the Malaysian authorities and are integral not only to HRC’s contribution towards nation building, but will also enable dynamic and sustainable growth through to 2020 and beyond.

ABOUT SHANDONG HENGYUAN PETROCHEMICAL COMPANY LIMITED

Shandong Hengyuan Petrochemical Company Limited (SHPC) is one of the Top 100 Leading Enterprises in Shandong and one of the Top 500 Chinese Chemical Enterprises, having achieved multiple accolades over the years. It was founded in 1970 and incorporated in 1997 as an independent oil refinery. SHPC has a production capacity of 3.5 million tonnes per year, and produces, processes and markets diesel oil, liquefied gas, propylene, propane, polypropylene, tert-butyl alcohol, oil slurry, asphalt, tert-pentene, ethybenzene, and other petroleum-related products.

SHPC’s Chairman and General Manager, Mr Wang YouDe, who is also the Chairman of HRC, has been named ‘One of Ten Outstanding Entrepreneurs in Shandong Province’ and received the ‘Outstanding People Award of National Advancements in Productivity’, amongst many other awards.

Since the successful acquisition of a 51 per cent equity stake in HRC via Malaysia Hengyuan International Limited in December 2016, the synergy between the SHPC Group and HRC has been beneficial. HRC’s business complements the SHPC Group’s existing portfolio, which enables SHPC to establish a strategic presence in Southeast Asia. SHPC continues to support HRC with their experience and technical expertise to ensure that our Company continues to deliver high-performance products and enhance profitability.

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 YouDe (Chair)
Wang ZongQuan
Surinderdeep Singh Mohindar Singh

BOARD TENDER COMMITTEE

Wang YouDe (Chair)
Wang ZongQuan
Alan Hamzah Sendut
Liang Kok Siang

SECRETARIES

Lim Hooi Mooi
MAICSA 0799764

Ong Wai Leng
MAICSA 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

HRC's commitment to operating as a sustainable business requires that we integrate economic, environmental and social considerations from planning to execution. In all that we do, HRC is guided by the following eight 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.



Health, Safety, Security and 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 our 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

2018

21 MAY

Unaudited financial results for the 1st Quarter ended 31 March 2018

24 MAY

59th AGM

30 AUGUST

Unaudited financial results for the 2nd Quarter ended 30 June 2018

28 NOVEMBER

Unaudited financial results for the 3rd Quarter ended 30 September 2018

2019

27 FEBRUARY

Unaudited financial results for the 4th Quarter ended 31 December 2018

26 APRIL

Notice of 60th AGM

28 MAY

60th AGM



NOTICE OF 60TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixtieth Annual General Meeting of Hengyuan Refining Company Berhad (the Company) will be held at **Nexus Ballrooms 1 & 2, Level 3A, Connexion Conference & Event Centre, Bangsar South City, No 8, Jalan Kerinchi, 59200 Kuala Lumpur** on **Tuesday, 28 May 2019** at **10.00 am** for the following purposes:

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2018 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(3) 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)**
3. To re-elect Mr Surinderdeep Singh Mohindar Singh who is retiring in accordance with Article 81(9) of the Constitution of the Company, and who being eligible, has offered himself for re-election. **(Ordinary Resolution 3)**
4. To re-appoint Messrs PricewaterhouseCoopers PLT as Auditors of the Company until the conclusion of the next Annual General Meeting (AGM) and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 4)**

SPECIAL BUSINESS

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

5. To approve payment of Non-Executive Directors' fees and benefits of up to RM2,000,000 for the period from 1 June 2019 until 30 May 2020.
[Please refer to Note (b)] **(Ordinary Resolution 5)**
6. **AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016** **(Ordinary Resolution 6)**

"**THAT** pursuant to Sections 75 and 76 of the Companies Act 2016 (the Act) and subject to approvals from Bursa Malaysia Securities Berhad (Bursa Securities) for the listing of and quotation for the additional shares so issued and other relevant authorities, where approval is necessary, authority be and is hereby given to the Directors to allot and issue shares in the Company at any time upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares to be issued shall not exceed ten per centum (10%) of the total number of issued shares of the Company for the time being **AND THAT** such authority shall continue to be in force until the conclusion of the next AGM of the Company."
[Please refer to Note (c)]

7. PROPOSED AUTHORITY FOR SHARE BUY-BACK

“**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:

(Ordinary Resolution 7)

- 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%) of the total number of issued shares of the Company as quoted on Bursa Securities as at point of purchase; and
- ii. the maximum amount of funds 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 of the Company is required by law to be held; or
- c. revoked or varied by ordinary resolution passed by the shareholders of the Company at 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, guidelines requirements and / or orders issued by any relevant authorities.

NOTICE OF 60TH ANNUAL GENERAL MEETING

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;
- 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 (d)]

8. **PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE** (Ordinary Resolution 8)

"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 2019 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(2) 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."

9. **PROPOSED ADOPTION OF THE NEW CONSTITUTION OF THE COMPANY** (Special Resolution 1)

"THAT approval be and is hereby given to revoke the existing Constitution of the Company with immediate effect and in place thereof, the proposed new Constitution of the Company as set out in Part B of the Circular to the Shareholders dated 26 April 2019 be and is hereby adopted as the Constitution of the Company **AND THAT** the Directors of the Company be and are hereby authorised to assent to any modifications, variations and / or amendments as may be required by the relevant authorities and to do all such acts and things and take all such steps as may be considered necessary to give full effect to the foregoing."

[Please refer to Note (e)]

10. To transact any other business of the Company of which due notice shall have been given.

BY ORDER OF THE BOARD

Lim Hooi Mooi (MAICSA No. 0799764)
Ong Wai Leng (MAICSA No. 7065544)
Company Secretaries

Dated 26 April 2019
Kuala Lumpur

NOTICE OF 60TH ANNUAL GENERAL MEETING

NOTES:-

1. Pursuant to Section 334 of the Act, a member of a company shall be entitled to appoint another person as his proxy to exercise all or any of his rights to attend, participate, speak and vote at a meeting of members of the company. 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.
2. 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.
3. 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.
4. A proxy need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
5. 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.
6. The signature to the instrument appointing a proxy or proxies executed outside Malaysia must be attested by a solicitor, notary public, consul or magistrate.
7. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or notarised must be deposited at the Company's Share Registrar's Office situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting.
8. Only an **originally signed** proxy form deposited at Tricor Investor & Issuing House Services Sdn Bhd, will entitle the proxy holder to attend and vote at the meeting. **Photocopies of signed proxy forms will not be accepted** for the purposes of the meeting. Additional proxy forms are available to Members upon request in writing to the Company.
9. The Date of Record of Depositors for the purpose of determining members' entitlement to attend, vote and speak at the Meeting is 17 May 2019.

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 Resolution No. 5

The proposed resolution No. 5 is to facilitate payment of Non-Executive Directors' fees and benefits for the period from 1 June 2019 to 30 May 2020.

In the event the Non-Executive Directors' fees and benefits proposed are insufficient (e.g. due to more meetings or an 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 2019 to 30 May 2020.

c. **Ordinary Resolution No. 6**

The proposed Resolution No. 6 is to provide flexibility to the Company to issue new securities without the need to convene a separate general meeting to obtain its shareholders' approval so as to avoid incurring additional cost and time. The purpose of this general mandate is to enable potential fund raising exercises, 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 the issuance of shares as settlement of purchase consideration. Should the mandate be exercised, the Directors will utilise the proceeds raised for working capital or such other applications they may in their absolute discretion deem fit.

d. **Ordinary Resolution No. 7**

The proposed Resolution No. 7, if passed, will empower the Directors to purchase, on behalf of the Company, up to ten per centum (10%) 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 2019 accompanying the Company's Annual Report for the financial year ended 31 December 2018.

e. **Special Resolution No. 1**

The proposed Special Resolution No. 1, if passed, will bring the Company's Constitution in line with the enforcement of the Act and the amended Listing Requirements.

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. There is no person seeking election as director of the Company at this Annual General Meeting.
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 (c) of the Notice of this Annual General Meeting.



CARING FOR OUR NEIGHBOURS

Mr Puspa, who is now retired and a former triathlete, has been living in Taman Toh Kee Kah for over 20 years. HRC's refinery is visible from his house, which is just about one km away. Over the years, Mr Puspa has remained in close contact with HRC on any matters of concern, be it smoke, smell or noise-related from the plant operations. "As residents, safety is our foremost concern. That, and ensuring there is minimal effect on our lives. This is where I appreciate HRC. They really make the effort to keep us updated and to resolve any concerns we bring to them."



“ We have no concerns when it comes to any issue
...because I can easily approach HRC’s community
liaison anytime for immediate attention. ”

Mr Puspanadan Ramaya
Resident of Taman Toh Kee Kah

Photographed with his wife Mrs Puspanadan

BUSINESS OVERVIEW & OBJECTIVES

Hengyuan Refining Company Berhad (HRC) owns and operates an oil refinery located in Port Dickson, Negeri Sembilan. As one of the most established and reliable refiners in Malaysia, we process crude oil from Malaysia and all over the world to deliver up to 156,000 barrels of petroleum products each day to customers in Malaysia and within Southeast Asia.



HRC's refinery overview.



VISION

To be the top performing and most admired refinery in Asia



MISSION

To improve shareholder value by:

- Manufacturing and supplying oil products and services that satisfy the needs of our customers
- Constantly achieving operational excellence
- Conducting our business in a safe, environmentally sustainable and economically optimum manner
- Employing a diverse, innovative and results oriented team, motivated to deliver excellence

Our comprehensive range of petroleum products includes liquefied petroleum gas (LPG), gasoline, diesel, jet fuel, fuel oil components, sulphur and chemical feedstocks (such as light naphtha and propylene). In 2018, we supplied about 28 per cent of Malaysia's petrol, diesel and LPG needs. The products we produce can be found in every part of daily living, not only as fuel for vehicles and LPG for cooking, but as precursors to the plastics in your smartphone, your clothes and many other products.

The refinery has been operating since 1963 and is a long-standing and valued contributor to Port Dickson's economy and community. We work very hard on being a responsible corporate citizen and a good employer, while minimising our environmental footprint and making a positive contribution to the local community, state and national economy through employment, taxes and as enablers to other industries. We are committed to giving back to the community by providing local employment wherever possible. We are proud to have employed three generations of some Port Dickson families. We maintain high ethical and governance standards, and through our Corporate Social Responsibility programmes, we direct social investments to help the Port Dickson community.

As part of our long-term commitment to Malaysia, the Board of Directors has approved a significant capital investment

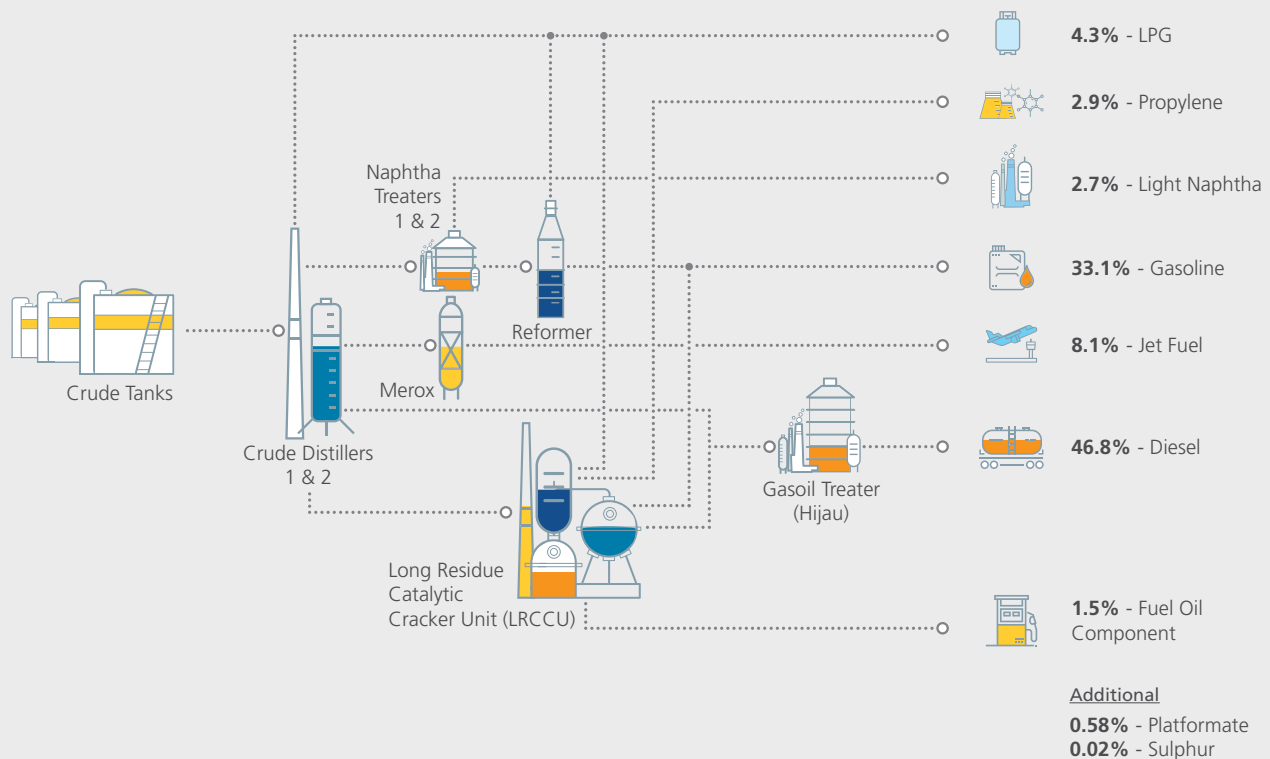
programme in 2018 to enable the refinery to continue operating for an indefinite period. Further details are provided on page 39 under Projects.

HOW WE RUN OUR BUSINESS

Our main activities are focused around operating and maintaining our refinery, and supplying refined products to our customers through the multi-product pipeline to the Klang Valley, the truck loading gantry for local (Negeri Sembilan) customers, and exporting products through our jetty.

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 and a gasoil treatment plant. These assets are well maintained with a strong focus on asset integrity and reliability. In 2018 we completed our three-yearly Major Turnaround (MTA 2018) after which the Department of Safety and Health (DOSH) extended our operating licence under the Special Scheme Inspection (SSI) from 36 months to a maximum of 75 months, reflecting their positive findings. We have also initiated and progressed projects to comply with government mandated clean fuel specifications for Euro 4M Mogas (Euro 4M), Euro 5 Gasoil and Clean Air Regulations (CAR).

AN OVERVIEW OF HRC REFINERY



BUSINESS OVERVIEW & OBJECTIVES

HRC is not involved in exploration for crude oil and gas. Our crude oil supply is sourced from international traders based on commercial attractiveness. We are focused on building good relationships with the crude supply network in the region and globally to benefit from competitive pricing. To complement these diversification efforts, HRC has also implemented various trade instruments with financial institutions.

HRC's principal market is the domestic Malaysian market, where over 90 per cent (by volume) of the Company's refined products are sold. The remaining 10 per cent of our production, including naphtha and propylene, are exported within Asia. We are committed to meeting the needs of the domestic market, and hold a long-term Product Offtake Agreement (POA) with a large retail distributor in Malaysia.

We continue to actively seek new customers and supply channels, both within Malaysia and in the wider region. Further expansion is focused on the best commercial opportunities and financial viability. Our strategy is to leverage on competitive bidding for long-term deals based on published benchmark pricing.

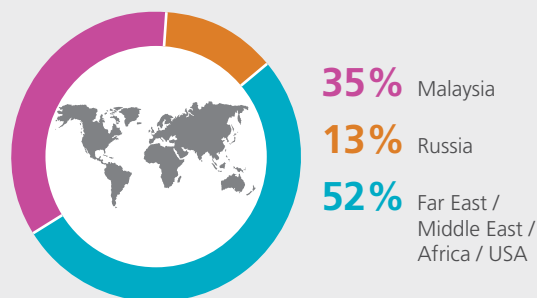
HOW WE SUSTAIN OUR BUSINESS

We are committed to delivering sustainable excellence in business performance by focusing on the following business objectives:

- Benefitting our shareholders;
- Realising the potential of our people;
- Meeting our customer requirements;
- Maximising refinery margins, with a particular focus on high margin opportunities and hydrocarbon hedging;
- Safeguarding asset integrity and reliability;
- Delivering structural cost reductions;
- Sustaining a robust management system; and
- Delivering continuous sustainable Health, Safety, Security and Environmental excellence.

To support these objectives, we adhere to six strategic priorities that drive our business and operations at all levels to ensure safe and reliable performance, and remain commercially relevant whilst enabling HRC to embrace new opportunities and grow sustainably.

SOURCES OF CRUDE



Staying Safe & Reliable

Safe and reliable operations are the cornerstone of our operations. HRC's Reliability Management Framework is the foundation for ensuring the integrity of our assets and optimising our production performance. We continuously maintain and improve our high Quality, Health, Safety, Security and Environment (QHSSE) standards, policies and practices.

Process and personal safety are the key components to ensure safe and responsible operations. We build on our Health, Safety, Security, Environment and Social Performance (HSSE & SP) Commitment and Policy to continuously improve and develop safety procedures and training programmes. We instil a 'reliability mindset' to promote individual ownership and excellence at every phase of asset management, and work towards a Goal Zero (Zero injuries, Zero significant incidents and Zero leaks) culture. We also conduct Learning From Incident (LFI) sessions, which enable us to strengthen the awareness of our people on safety and take action to prevent recurrence of events. This strategic priority ensures we can safeguard asset integrity and deliver continuous and sustainable QHSSE excellence.

Refer to our QUALITY, HEALTH, SAFETY, SECURITY AND ENVIRONMENT (QHSSE) review on page 36



Putting People First

Our employees are instrumental to the success of the Company, and we strive to become and remain an employer of choice within the Malaysian market. At HRC, we strive to enable our employees to reach their full potential by providing them with opportunities for growth, skill development, competitive remuneration and a satisfying and rewarding team culture. Our programmes are continuously reviewed to provide a competitive and comprehensive Employee Value Proposition.

Refer to PEOPLE on page 40



HRC launched its first Graduate Programme in 2018, hiring ten graduates into developmental roles.



Building a Sustainable Future

HRC recognises that long-term success means creating long-term value for our stakeholders, and that means to perform well both in our operations, and for the people and environment around us. To secure consistent economic performance and business success, HRC strives to achieve product excellence and operational efficiency through the implementation of stringent QHSSE standards, improved reliability practices and talent management, while safeguarding the environment within which we operate. We also care for our neighbouring communities and cultivate strong relationships with them through corporate social responsibility activities revolving around the themes that resonate with our business - environment, safety, education and society. We build strong foundations across key sustainability areas to become a refiner of choice in the region.

Refer to *SUSTAINABLE DEVELOPMENT* on page 41



Rising Together

We recognise that our success is not just about us but extends to our stakeholders as well. We work closely with government and regulatory agencies, communities, customers and suppliers, and continuously engage them in forging new advancements, cleaner fuels, and supporting collective growth. Significant milestone events like the MTA 2018, Euro 4M ground-breaking ceremony and CAR project contract signing include participation of our stakeholders from the regulators, HRC business partners and community members.

Refer to *STAKEHOLDER ENGAGEMENT* on page 26



Being \$ Smart

A cost-conscious mindset helps us manage our financial sustainability. During 2018 we not only reduced exposure to foreign exchange and hydrocarbon risks, but also achieved further margin protection through disciplined execution of hedging policies. We have also negotiated service and materials contracts at market competitive prices and leveraged longer-term volume and cost modelling for cost optimisation. This strategic priority enables the Company to maximise refinery margins and deliver ongoing structural cost reductions.

Refer to our *FINANCIAL REVIEW* on page 34



Focusing on Growth

As an independent international refiner, we aspire to make our mark and grow our reputation in the market. The diversification of our crude oil supply and customer base is necessary to build resilience to face sector challenges while the expansion of our product portfolio will enable us to meet our customer requirements. The focus on reliability and efficiency, as well as investments to upgrade our plant assets, will enable an increase in the volume of products available for sale and ensure the sustainability of our refinery's operations for the longer term. Other potential opportunities for growth include product trading, leveraging Asia trade pacts and diversifying our business through customer and product development.





Refer to *OPERATIONAL REVIEW* on page 36





STAKEHOLDER ENGAGEMENT

Our stakeholders are individuals or groups who have an impact or are impacted by our business. As a responsible corporate citizen and a significant contributor to Malaysia's oil and fuel needs, we recognise the responsibility we have to our shareholders, our people, neighbouring and fenceline communities, customers, business partners, suppliers, and regulators.

HRC's stakeholder engagement strategy is to connect with our key stakeholders as an integral part of our sustainability management. We regularly engage them through various channels to gain better insight into their issues and concerns. Over the past year, HRC's stakeholder engagement activities enabled the identification and prioritisation of material issues that have impact on or by the business.

The table below lists our key stakeholder groups and describes how HRC engages with each group:

Stakeholders	Engagement Channel	Frequency	Purpose
 Employees	<ul style="list-style-type: none"> • Town Halls • Employee Information • Intranet • Development Discussions • Events and Campaigns • Training • Team Meetings 	<ul style="list-style-type: none"> Quarterly On-going On-going Annually On-going On-going On-going 	Nurture and engage employees to instill a sense of pride in the Company, provide a conducive work environment while ensuring growth opportunities and career development
 Union	<ul style="list-style-type: none"> • Meetings 	Quarterly and as required	Build and sustain relationship, obtain feedback on concerns and provide update on current issues
 Customers	<ul style="list-style-type: none"> • Survey • Email Communication • Supply and delivery meetings • Site visits • Conferences 	<ul style="list-style-type: none"> Annually As required Quarterly As required On-going 	Offer high quality products and service offerings
 Suppliers	<ul style="list-style-type: none"> • Vendor registration • Bid / Tender Process • Meetings • Audit • Conferences 	<ul style="list-style-type: none"> On-going On-going As required Annually On-going 	Set clear expectations to maintain high standards for delivery of products or services to the Company

Stakeholders	Engagement Channel	Frequency	Purpose
 Shareholders and Investors	<ul style="list-style-type: none"> • Annual General Meeting • Analysts Briefing • Annual Report • Announcement 	<ul style="list-style-type: none"> Annually On-going Annually As required 	<p>Disseminate timely and material information on the Company's activities and financial performance to facilitate decision-making by investors</p> <p>Provide financial information of the Company to facilitate decision-making by investors</p>
 Community	<ul style="list-style-type: none"> • Community Events and Campaigns • Dialogue 	<ul style="list-style-type: none"> On-going On-going 	<p>Build and maintain good relationships while being a 'Good Neighbour' ie carrying out our corporate social responsibilities to the local communities</p>
 Regulators	<ul style="list-style-type: none"> • Consultation and Dialogue • Training • Email Communication • Inspection 	<ul style="list-style-type: none"> On-going On-going On-going As required 	<p>Strict compliance with all laws and regulations to maintain operating licences</p> <p>Participation in discussions and knowledge sharing for improvements in industry best practices</p>
 Government Agencies	<ul style="list-style-type: none"> • Face-to-face meetings 	<ul style="list-style-type: none"> On-going 	<p>Provide business familiarity and sustain efficient business operations</p>

2018 STAKEHOLDER ACTIVITIES

We believe in fostering a close relationship with our employees and the community at Port Dickson. In 2018, HRC organised various activities that involved all levels of management and employees interacting among themselves and with our stakeholders. Through these initiatives, we are able to interact with our internal and external stakeholders, contribute to their well-being and build opportunities to bridge any communication gaps.

JANUARY



HRC Community Engagement

FEBRUARY



Annual Dinner and Long-Service Awards Celebration



Chinese New Year mandarin oranges distribution to Kampung Teck Lin's senior citizens

MARCH



Chinese New Year Staff Gathering

APRIL



Staff Townhall

MAY



59th Annual General Meeting

JUNE



Bubur Lambuk distribution to members of the public in Port Dickson in conjunction with Ramadhan

JUNE



Buka Puasa with our fenceline communities and underprivileged families

JULY



Hari Raya Open House with local communities, authorities and staff



Port Dickson community park cleaning with Chung Hua High School students

AUGUST



MTA 2018 Energiser Programme

AUGUST



HRC collaborated with Majlis Perbandaran Port Dickson (MPPD) for Hari Kebersihan Port Dickson

OCTOBER



Deepavali food care pack distribution to underprivileged families



HRC sponsorship of the Department of Environment's national public speaking competition

DECEMBER



HRC 5 million manhours LTI-free celebration run

A SUCCESSFUL MAJOR TURNAROUND

Progressing towards a cleaner and more sustainable future, HRC is constantly raising the standards to ensure optimum performance while investing in state-of-the-art technologies that will help create long-term positive benefits.

HRC completed a successful major turnaround in 2018 that will enable the refinery to continue efficient and profitable operations.



“ A ‘Reliability Mindset’ is part of our corporate culture. We promote individual accountability and collective ownership of reliability issues in every facet of asset management. Our people are encouraged to participate proactively in our asset integrity management activities. ”

Wan Hadzreel, Reliability and Rotating Equipment Section Head



PERFORMANCE REVIEW 2018

In 2018, HRC's performance was influenced by the Major Turnaround 2018 (MTA 2018) and a range of external market and economic factors.

The MTA 2018 was an 11-week planned production outage which was key to renewing our licence to operate in a safe and secure manner. During that period our only revenue was a fee for imported products passing through. The turnaround was completed successfully with a good safety performance, ahead of schedule and USD4.46 million below budget after completing all planned work. With this, the refinery equipment can now operate steadily and efficiently at the intended operating capacity.



MTA 2018 morning toolbox meeting.

Across the first three quarters of 2018, crude prices followed a persistent rising trend, increasing from USD62/bbl and peaking at around USD86/bbl in early Quarter 4. Factors supporting the price included OPEC and its allies curbing production, the USA's plan to impose sanctions on Iran, geopolitical tensions in Venezuela and Libya, and the USA-China trade war. However, crude prices fell steeply throughout Q4 and ended the year at around USD50/bbl amidst bearish sentiments when USA granted waivers on Iran sanctions and continuous high USA crude production. The rise and fall of crude oil prices had an effect on HRC's working capital costs, inventory value and refinery margins.

Our refinery margins were also affected by the weak Mogas crack in the second half of the year. Mogas prices weakened significantly by the third quarter due to a large surplus of supplies in the region, attributable to high export volumes from China. On the other hand, Kerosene and Gasoil prices were strong on the back of winter demand which provided support to HRC's margin. This was however, insufficient to fully offset the Mogas crack weakness.

With such margin volatility, we endeavoured to put hedges in place to mitigate the more extreme effects. We also continued delivery of our operational excellence goals to improve production and reliability, and to prepare for current and future projects which are key for our long-term sustainability. The Board and Management focused on the same performance assessment (as per the categories listed in our 2018 KPIs table) since 2017, based on risk management reviews, feedback from internal and external stakeholders through various communication channels and benchmarking against other industry players.

2018 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.

2018 PERFORMANCE ANALYSIS



SAFETY

	2018	2017	2016	2015	2014
Million Exposure Hours Worked	3.5	2.0	1.3	1.9	1.6
Lost Time Injuries (LTI)	0	0	1	1	1
Process Safety Incidents	2	1	1	0	0
First Aid Cases (FAC)	11	5	1	5	4



PRODUCTION & RELIABILITY*

Operational Availability*	79.4%	97.4%	82.1%	86.1%	94.8%
Unplanned Downtime (UPDT)	3.1%	2.3%	7.2%	4.5%	5.1%
Production Volume (million bbl)*	32.5	39.7	37.5	33.9	37.9



MARGIN & FINANCIAL PERFORMANCE

Refining Margin (FIFO) (USD/bbl)	3.0	8.4	5.5	6.1	(2.3)
Sales Volume (million bbl)*	35.2	41.1	39.0	36.3	40.5
Revenue (RM million)*	11,241	11,583	8,365	9,080	14,263
Profit After Tax (RM million)*	31	930	335	352	(1,189)
Cash Generated From / (Used in) Operations (RM million)*	380	477	(5)	783	116
Quick Ratio	1.0	2.5	1.8	0.7	0.5



RETURN ON INVESTMENT

Shareholders' Funds (RM million)	2,022	1,789	1,010	677	325
Earnings / (Loss) Per Share (sen)*	10	310	112	117	(396)
Return on Average Capital Employed (times)*	0.0	0.4	0.2	0.3	(0.6)



SUSTAINABLE DEVELOPMENT

Energy Intensity Index (EII)	111.7	111.5	114.0	113.5	112.2
Effluents – Average Oil in Water Concentration (avg mg/l)	1.0	1.2	0.9	1.0	1.2
Waste Management					
• Effluent Treatment Plant (ETP) Sludge	184	663	624	957	805
• Spent Oil Water Emulsion (MT)	2,175	1,794	1,835	2,084	2,548
Public Complaints	3	5	2	5	5

* 2018 figures are impacted by the 11-week MTA 2018

PERFORMANCE REVIEW 2018

FINANCIAL REVIEW

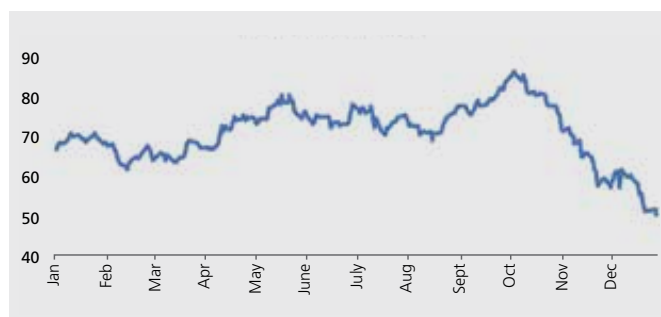
In the year under review, HRC posted a profit after tax of RM30.8 million and total comprehensive income of RM239.0 million compared to RM929.8 million and RM778.3 million respectively in 2017. Refining margins and oil prices were volatile during the year resulting in a full year average Current Cost of Stock margin (CCS) of USD3.44 per barrel while FIFO margin was USD3.00 per barrel (2017: CCS 7.17, FIFO 8.39). Further analysis of the financial performance is as follows:



Revenue and Gross Margin

HRC recorded revenues of RM11.2 billion in 2018 (2017: RM11.6 billion) on the back of higher oil prices which compensated for lower production and sales volume due to the statutory shutdown. Crude prices averaged USD71.04/bbl compared to USD54.3/bbl in 2017.

BRENT OIL PRICE



The rise in crude oil prices from January to September were due to the reduction of crude production as agreed by OPEC and other oil producing countries as well as the United States of America's (USA) plans to impose sanctions on Iran. The geopolitical tensions in Venezuela and Libya also contributed to the oil price increase. In the fourth quarter, crude prices dropped significantly from USD86/bbl to USD50/bbl amidst bearish sentiments when USA granted waivers on Iran sanctions and the market saw continuous high USA crude production. This resulted in stockholding losses of USD6.06/bbl in the same quarter. The quarter's losses were however cushioned by inventory hedging gains of USD2.16/bbl. Gains on settlement of hedges of RM80.2 million were accounted for within Gross Profit, partially offsetting the stockholding losses on hydrocarbon inventories. The cumulative stockholding losses for the full year, net of inventory hedging is USD0.44/bbl.

The business improvement tactics delivered a value of USD37.7 million in 2018. This was attributed to crude optimisation of USD19.2 million, product optimisation of USD16.7 million and spend optimisation of USD1.8 million.

CCS margin for the year was USD3.44/bbl compared to USD7.17/bbl in 2017. FIFO margin was USD3.00/bbl including a stockholding loss of USD0.44/bbl as compared to USD8.39/bbl in 2017. The lower CCS margin is impacted by surplus of inventories in the region, attributable to massive export volumes from China.

Margins for 2017 were significantly higher as market refining margins were influenced by unplanned production outages caused by hurricanes in the Gulf of Mexico and a fire incident reported in a world-scale European refinery in the third quarter of 2017.



Income and Expenses

Sales volume was 14 per cent lower in 2018 due to the scheduled production downtime of 11 weeks to deliver the MTA 2018, which commenced on 6 August and was completed on 21 October. Sales volume was 35.2 million barrels in 2018 compared to 41.1 million barrels in 2017. Revenue is however comparable to 2017 as market quoted product prices averaged USD79/bbl in 2018 as compared to USD65/bbl in 2017.

The Company partially reversed an asset impairment originally recognised in the financial year ended 2014, following a reassessment of its property, plant and equipment recoverable amount after the successful completion of two major projects - MTA 2018 and the replacement of the Long Residue Catalytic Cracker Unit's (LRCCU) regenerator dome (Atlas II). The assessment also takes into consideration progress on other key projects, namely Euro 4M Mogas plant, H2GEN and Clean Air Regulation projects, ensuring long-term capability to supply regulatory-compliant products for local demand.

Operating expenditure for the year was lower at RM262.0 million compared to RM301.7 million in 2017 due to lower consumables resulting from lower production and spend optimisation. Included in the operating expenditure is RM14.5 million of planned maintenance activities carried out to coincide with MTA 2018 to minimise disruptions to production. Included in other gains are fair values on commodity swaps amounting to RM76.9 million. Income tax credit of RM55.3 million includes unutilised capital allowances and unused tax losses as of 31 December 2018.

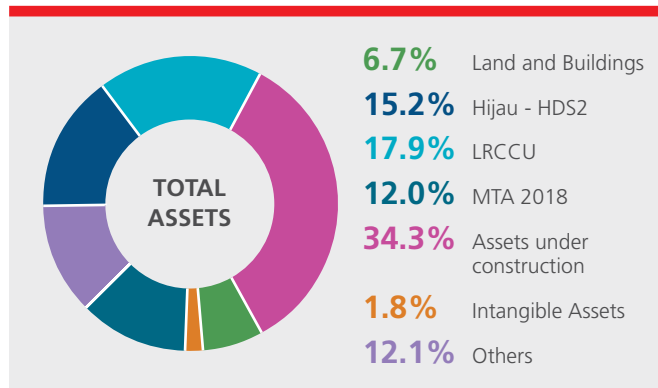
The Company has partially hedged its gasoil margins, in anticipation of International Marine Organisation limiting sulphur content in all marine fuels, with effect from 2020. The mark-to-market gains on these hedges have been recognised within other comprehensive income. The foreign currency translation differences arose from the conversion of its US Dollars books into RM presentation.



Total assets and liability

Total assets have increased by RM518.3 million in 2018 to RM4.2 billion. Details of each component are set out below:

- Net book value of fixed assets amounting to RM1.3 billion comprises:



The valuation basis of these assets is as stated in our accounting policies.

- Our current assets, which comprise of inventories, cash and receivables, have decreased slightly by 5.0 per cent. Cash balances have decreased to fund the capital investment projects required in 2018.

Total liabilities have increased by RM285.3 million to RM2.1 billion. Further details are set out below:

- Current liabilities comprise mainly of payables arising from crude purchases, revolving credit short term borrowings and the portion of term loan balances that are repayable within the next 12 months. Trade payables are higher in 2018 due to timing of crude payments.

- Non-current liabilities comprise of term loans and deferred tax liabilities. Terms loans are repayable over a 4-year period, denominated in USD and are secured by way of charges on the Company's assets. The term loan outstanding as at end financial year 2017 has been replaced with a combination of term loans and revolving credits for the purpose of financing flexibility and optimisation. The facilities are drawn down and utilised for working capital and capital investment purposes.



Cashflow

Cash generated from operations was utilised mainly for capital investment purposes for projects including the MTA, Atlas II and Euro 4M Mogas projects, and to reduce interest expense through optimising loan utilisation. Hence, the cash balance as at the end of the year is lower at RM128.0 million compared to RM492.9 million in 2017.



Dividends

The Board of Directors reviews the cashflow and scenario forecasts every quarter, prepared 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 pending completion of large projects such as Euro 4M Mogas, Clean Air Regulation and the H2GEN units. Hence, no dividends have been declared for the financial year ended 31 December 2018. The Board will continue to review the dividend prospects taking into account long-term value creation for its shareholders.



Rigorous preventive maintenance, inspection and process safety programmes have been in place for over a decade to uphold the integrity of the refinery.

PERFORMANCE REVIEW 2018

OPERATIONAL REVIEW



Quality, Health, Safety, Security and Environment (QHSE)

HRC was very pleased to achieve 5.6 million manhours without LTI by the end of 2018. An even more positive result was the proactive weak signal reporting on various HSSE concerns to prevent safety incidents, termed 'Near Miss / Potential Incident (NMPI) Reporting' during the Major Turnaround. The safety performance for the year significantly exceeded expectations, indicating a positive intervention and compliance culture from both staff and contractors.

The improvement of QHSE performance remains a top priority for the Company. To achieve the final stage 'generative' in the Hudson Safety Culture Ladder¹, the Company invests effort and resources in programmes such as QHSE development and training, campaigns and emergency response preparedness. The Company also proactively carries out Environment Impact Assessments (EIA), environmental monitoring and improvement programmes to maintain our QHSE standards.

A key HSSE challenge for the year was the MTA 2018, the largest, longest and most complex turnaround in the refinery's history. The safety aspect of MTA 2018 was one of the key risks on our Leadership Team's radar, and preparations for this event commenced in 2016. The frequency of HSSE Inductions increased from once a week to four sessions a day, a few months before the start of MTA 2018. Approximately 400 training, on-boarding and induction sessions were conducted for almost 3,000 participants in 2018. These sessions covered both internal and statutory requirements.

In the first seven months of 2018, over 15,000 Job Hazard Analysis documents were endorsed which enabled timely work execution by contractors. Scores of engagements, on-boarding sessions and teambuilding were also conducted with relevant authorities including DOSH, Department of Environment (DOE), Royal Malaysia Police (Polis Diraja Malaysia (PDRM)), Royal Malaysian Customs Department, Immigration Department, Fire and Rescue Department, Port Dickson Municipal Council and District Office. The good cooperation was beneficial in ensuring the safe execution of MTA 2018.

Amidst all this, HRC is proud of the following achievements:

Recertification of:

- ISO 9001:2015 (Quality Management System)
- ISO 14001:2015 (Environmental Management System)
- ISO 17025 (Competence in Testing and Calibration of Laboratories)

5.6 million

man-hours
without LTI



Zero work-related
fatality record

for more than

25 years



“ We are the first operating refinery in Malaysia to achieve ISO 45001:2018 (Occupational Health & Safety Management Systems) ”

Upgrade from:

- OHSAS 18001:2007 to ISO 45001: 2018 (Occupational Health & Safety Management Systems)

Certification of:

- ISO 45001:2018 (Occupational Health & Safety Management Systems). We are the first operating refinery in Malaysia to achieve this.
- ISO 27001:2005 (Information Security Management Systems).

The external audit of our HSSE Management System (HSSE-MS) also reflected the positive progress we have made over the last six years. The audit report issued in February 2018 had a reduced number of findings, recommendations and criticality; indicating significant improvement when compared against the previous HSSE-MS audit in 2012.

In March 2018, HRC received the Prime Minister's Hibiscus Award for Exceptional Achievement in Environmental Performance 2016 / 2017, which recognised the Company's environmental accomplishment and leadership. The award platform serves to create environmental awareness and stewardship amongst enterprises.

Personal Safety Is Paramount

Aptly reflecting the priority to execute a safe turnaround, 2018's Safety Day was transformed into a series of campaigns and programmes scheduled throughout the long turnaround period. Each MTA month had workers Mass Toolbox as a dedicated engagement session, covering specific HSSE themes for all workers on-site.

We successfully maintained our zero work-related fatality record for over 25 years. In 2018, we recorded two personal safety incidents of "Restricted Work Case" severity (two in 2017), and 11 first aid cases which mostly occurred during MTA 2018. These cases were quickly investigated to ensure timely dissemination of learning to nearly 3,000 workers on-site at the time.

¹ The Hudson Safety Culture Ladder is an evolutionary ladder which plots the development of an organisation's safety culture. Hudson, P.T.W. (2007). Implementing a safety culture in a major multi-national. Safety Science, 45, 697-722

HRC also launched multiple campaigns and initiatives progressively during the MTA period. To name a few, there were “The 5IVES”, “Just Intervene” & “Take 5! Let’s End Well” Safety Campaigns, which emphasised using the right tools for the job, applying a risk-assessment mindset, intervening with respect, avoiding complacency and avoiding normalisation of risks.

HSSE preparedness during the turnaround was a clear example of HRC’s continued focus on safety. It was one of the key indicators discussed weekly by the Leadership Team and quarterly by the Board. Incidents were managed through a close collaboration with contractor partners. As a result, HRC attained a high level of safety ownership from staff and contractors throughout the turnaround. This was demonstrated through contractor-led safety campaigns, speedy incident investigation outcomes, sharing of learnings through the publications of HSSE Alerts and high accountability in managing disciplinary concerns effectively in their organisation. Our efforts ensured all risks were well mitigated and prevented any escalations to more serious incidents.

Taking Process Safety to the Next Level

This initiative was launched in HRC two years ago to reduce significant process safety incidents. One component of this initiative, the “8 Key Steps”, a collection of process safety improvement tactics, has been completed and efforts are ongoing with the two other components, namely “Keep It In The Pipe” and “Process Safety 9 Fundamentals (PS9F)”. In 2018, compliance to PS9F performance improved significantly as we worked to provide better clarity on these requirements and to strengthen our PS9F assurance programme.

We also continued to conduct regular process safety reviews for our existing plant to identify opportunities that would reduce site exposure to major process safety incidents. Many of these projects were successfully implemented during MTA 2018, in addition to those completed during normal operations. These preventive measures are important to ensure the plant remains safe and operationally sustainable.

The number of American Petroleum Institute (API) Tier 1 Process Safety Event remained the same as 2017. This highlights the need to continue to improve process safety by focusing on asset integrity management and enhancing training to reinforce a process safety culture.

Summary of actions taken on 2018 API incidents:

API Tier 1

Process Safety Event – 1

Incident: Leaking end spool on 12” crude feed pipeline, resulted in crude oil release into a bunded area.

Action taken: Upon detection, the line was immediately isolated and the surrounding area was barricaded. The released crude oil was contained in our secondary containment (a bunded area) and recovered. Repairs to the leaking spool were performed immediately. Investigation pointed to internal corrosion at a dead leg as the cause of the leak. Similar systems have since been inspected to avoid any other leaks.

API Tier 2

Process Safety Event – 1

Incident: Leak from a level gauge spool of a column overhead accumulator.

Action taken: Affected units were slowed down and isolated immediately, and the leaking spool replaced. Investigations pointed to internal corrosion due to dead leg and ammonium chloride deposition as the causes of the leak. Systems with similar conditions have since been inspected and a programme of replacing similar pipe spools is in progress.



PERFORMANCE REVIEW 2018

In 2018, four non-tiered API Loss of Primary Containment (LOPC) above 10kg events were recorded (in 2017 there were two incidents recorded).

Quarter 1

Electrical power disruption caused multiple critical pumps of the Mild Vacuum Unit (MVU) to trip and flood multiple vessels at the MVU column overhead.

Quarter 2

Pinhole leak on a 4" wet slop line

Quarter 3

A small leak on a steam hose was found spraying crude oil mist on the equipment below.

Quarter 4

Foaming issue at the amine treating column.

For all four incidents above, investigations have been completed and shared in the site's weekly incident review session. The agreed actions are completed or in progress and are being followed-through.

Further details about QHSSE management and performance can be found in the 2018 Sustainability Report available online at www.hrc.com.my



Production and Reliability

Reliability remained a top priority in 2018 particularly because the refinery was nearing the end of its operating cycle in the lead up to MTA 2018. HRC recorded an unplanned downtime (UPDT) of 3.1 per cent against a target of 2.4 per cent including production slowdowns. Asset utilisation was 69 per cent because of scheduled shutdowns.

Plant reliability was affected by LRCCU Wet Gas Compressor (WGC) control issues, LRCCU slide valve power failure, single running equipment failures as well as instrument nuisance trips. Identification of the root causes and relevant mitigation measures were swiftly implemented to minimise disruption to plant operations.

Despite these challenges, a commendable Plant Availability of 96.9 per cent against the target of 96.6 per cent was recorded. This was achieved through:

- Elimination of threats to availability. A significant number of identified threats were mitigated or eliminated through various projects and repair activities during MTA 2018.
- Identifying gaps and opportunities for improvement. Design changes to eliminate instrumentation failure outages by adding redundancy were implemented. Further instrumentation upgrades are planned.
- Expanding the proactive technical monitoring programme that has been established to include key process parameters.

- Identifying and eliminating possible causes of future incidents through Proactive Threats Identification Elimination (PTIE) and Asset Integrity Assessment (AIA).
- Sharing of knowledge and learnings from incidents to prevent future recurrence.

Total crude processed in 2018 was 32.5 million barrels, meeting the crude processing target for 2018. This was 7.2 million barrels lower than 2017 due to the planned MTA outage.

Gasoline production was lower compared to 2017 primarily driven by the weak gasoline cracks and maintenance work in Quarter 3. Comparing gasoline cracks, 2017 cracks were at USD11 to USD15/bbl while 2018 cracks softened to as low as USD2.6/bbl. As such, the refinery focused on maximising jet and diesel production.

Kerosene / jet production was similar to 2017's volumes, supported by relatively strong prices and stable jet treating unit operation. LPG and propylene production were lower in 2018, attributed by lower LRCCU intake in view of the MTA event.

Looking ahead, HRC is confident that the use of well-established processes and our strong track record over many years of refining operations, combined with ongoing improvements, will continue to ensure a good business performance.

Over **99%**
success in on-time deliveries
and quality requirements



Keeping a Strong Focus on Product Quality (PQ)

There were no major PQ issues in 2018. The PQ team continued to work with the Economics & Scheduling team to further diversify our customer base. There were no major findings from the regular ISO 17025 surveillance audit conducted by the Department of Standards Malaysia, and we were successfully recertified with ISO 9001 by SIRIM QAS International to ensure the refinery meets the prescribed product quality.

In 2018, three minor incidents impacted our products and delivery. In two separate Product Quality Incidents (PQIs), Mogas and Gasoil product were found contaminated with water in our customer's road tankers. These products were immediately returned to the refinery for reprocessing. There was an intermittent supply disruption to our customers for half a day during this incident. Immediate corrective and precautionary measures were put in place which resolved these issues. This includes more structured surveillance, improved facilities and more frequent draining of low points within the product transfer pipeline system.

Separately, during plant stabilisation post-MTA 2018, volumes of off-spec LPG were inadvertently produced. This incident does not constitute a PQI, but we noted it resulted in intermittent short duration stock-outs to our customer. For all incidents, learnings have been captured to ensure they are not repeated and are being addressed. This includes improved cross-plant communications, enhanced product sampling frequency and increasing awareness of the PQ process to ensure products are always fit for purpose.

All obligations under the POA were fulfilled and all contracted volumes were delivered, except the incidents reported above. Thus we achieved over 99 per cent success in on-time deliveries and quality requirements.



Commercial

HRC has some inherent commercial advantages arising from our geographical location, our control of the main hydrocarbon jetty in Port Dickson and our connection to the multi-product pipeline supplying the Klang Valley. We also benefit from having commercial product agreements with large retail distributors,

and process unit configurations with high product yields. During 2018, to further strengthen our commercial position we explored opportunities to further diversify our supplier and customer bases. To supplement our crude oil supply agreement, we successfully negotiated additional crude oil supply agreements with several local and regional crude oil producers and traders.

We also explored new trade opportunities with local and global industry players for the sale of refined and oil component-based products to diversify our customer base. We will continue to evaluate and take advantage of any potential opportunities to diversify trade partners. We have also initiated medium to long-term contracts for some of our export products with new customers.

These combined efforts, contribute to better risk management, competitive margins and provide a continuous stable outlet for our products.



Projects

In Quarter 3 2018, HRC completed both the MTA 2018 and the Atlas II project safely and successfully within 11-weeks and under budget. The shutdown and startup progressed safely and smoothly with no major incidents.

Other major projects critical for sustaining HRC's future operations, initiated in 2017 and implemented from 2018 and 2020, include:

- **Euro 4M Mogas:** To install a gasoline sulphur removal unit for statutory compliance with Euro 4M Mogas specifications by January 2020.
- **Euro 5 Gasoil:** To comply with Euro 5 Diesel specification by October 2020.
- **Clean Air Regulation (CAR):** To install an Air Pollution Control System (APCS) and emission monitoring system in order to comply with the monitoring requirements and regulatory emission limits by Quarter 3, 2019.
- **H2GEN:** To supplement hydrogen shortages post Euro 4M Mogas & Euro 5 Gasoil with implementation in 2020.

All four projects are on schedule. Both Euro 4M and CAR are under construction and will be commissioned as planned.

H2GEN reached a Final Investment Decision in November 2018 and is also well on schedule to complete on time. The Euro 5 Gasoil scope has been extensively reduced with considerable capital savings and the scope is now small enough to be managed in-house.

PERFORMANCE REVIEW 2018

People

In 2018, HRC's workforce grew by 8 per cent compared to 2017, with a turnover rate of 4.6 per cent and a hire rate of approximately 14.5 per cent. We ended the year with a total of 446 staff and contract employees. Our workforce growth was underpinned by our growing operations, project execution, enhanced governance programmes and succession planning.

Despite plant operations which are traditionally male-centric, we continue to strive for gender diversity at all levels of the organisation. At present, our workforce comprises 85 per cent male and 15 per cent female employees. At the Management Team level, five out of 13, or 39 per cent, are female.

We have a predominantly local workforce. More than 99 per cent of HRC's permanent employees are Malaysians, with only five expatriate employees hired to leverage on their extensive experience. At 56.5 per cent Bumiputra, 26.3 per cent Chinese and 15.7 per cent Indian, HRC's diversity is in line with the national demographic statistics.

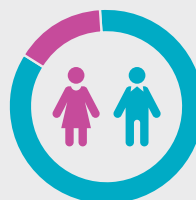
In terms of age demographics, our workforce is well-balanced with 52.2 per cent of our employees under 40 years old.

We are proud of our loyal employees, where 49 per cent of our employees have been with us for more than 10 years, and 16 per cent have been working with us for more than 25 years. We are committed to give back to the community where we can and we employ local staff and vendors wherever possible. We practise diversity and inclusiveness and offer equal opportunities to everyone regardless of their gender, age, ethnicity, nationality, or religion.

We actively review our salary, benefits, career prospects and training to ensure our Employee Value Proposition (EVP) are attractive and competitive against market benchmarks. We have initiated inter-departmental moves to refresh and develop high potential employees. Going forward, we will continue to promote employee career advancement opportunities. Our strong sports and social programme continue to thrive in 2018 as we enhanced employee engagement activities with the kick-off of the "Be Well" campaign, an employee health improvement programme which empowers employees to manage their health through tournaments and sport activities. Through these initiatives, employees' weight collectively dropped by 271 kg and employees' health improved.

GENDER DIVERSITY

WORKFORCE

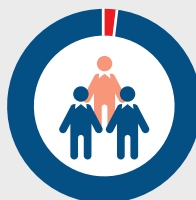


MANAGEMENT TEAM

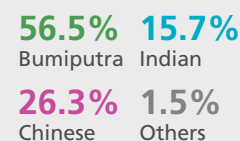
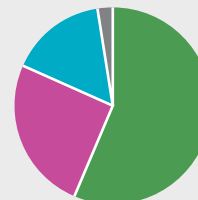


WORKFORCE DIVERSITY

NATIONALITY



ETHNICITIES



AGE GROUP



SUSTAINABLE DEVELOPMENT



Refinery 'Gotong Royong' by HRC workers.

HRC is fully aware that our long-term sustainability will not only be built on our business performance, but will also be determined by our environmental footprint, engagement with society and stakeholders, and our reputation.

We are proud of our performance over the last 56 years and are confident that we can continually improve in these areas.

Our Sustainability Statement is contained in our 2018 Sustainability Report available at www.hrc.com.my/investor_relations.html. A summary of our sustainability efforts is set out below.



Water Consumption and Effluent Management

HRC actively monitors all fresh water use to minimise consumption. There may be instances in which large quantities of fresh water may be required to replace evaporation losses, water consumed in refining operations and for domestic use. To minimise fresh water use where possible, we recycle most of the water used, either as steam or for various process purposes. Water is also produced when separated from crude oil imports and from rainfall.

HRC is strict regarding discharges of water or effluent which could contaminate the surrounding areas or the sea. For this purpose, our plant has a series of systems to separate and treat effluent and rainfall to remove oil and other contaminants. The water is tested at various points before final discharge at sea.

Separately, monitoring samples are tested by an independent third-party laboratory and the results are reported to DOE. Parameters are monitored against DOE's Environmental Quality (Industrial Effluent) Regulations 2009 and the Marine Water Quality Standard (MWQS).

Some initiatives to strengthen water effluent barriers were put in place in 2018. We aim to further improve our overall effluent water quality and are progressively reviewing our current design as part of our medium to long-term improvement efforts.



Energy and Emissions Management

As part of the refinery process, carbon dioxide (CO₂), trace quantities of sulphur oxides (SO_x), nitrogen oxides (NO_x) and particulates are emitted.

HRC constantly strives to reduce carbon emissions and subsequently achieve lower operating costs through effective energy management. We adopt the international Energy Intensity Index (EII) metric to measure and monitor our energy performance by comparing actual consumption against standard consumption. During 2018 and prior to MTA 2018, the EII was slightly above average as the refinery equipment was at the end of its operating cycle. However, as a result of the MTA, the EII improved by 4 points which represents a significant reduction in energy consumed and CO₂ emitted.

All in all, HRC's 2018 emissions, except Greenhouse Gas (GHG) emissions, were well below previous years due to operational improvements. GHG emissions (tonnes CO₂e/mil bbl) increased 2 per cent in 2018 due to changes in Global Warming Potential (GWP) and Electrical Grid Factors. The data and more details can be found in our Sustainability Report.

HRC's aspiration is to reduce our environmental footprint over the long term. In 2019, projects such as Clean Air Regulation will be commissioned to further reduce and manage HRC's emissions. These projects will ensure we comply with the government's Clean Air Regulations (2014) requirements.



Waste Management

HRC strives to minimise the quantity and impact of waste materials to the environment. All waste streams are managed according to Malaysia's laws and regulations.

The main wastes generated by HRC are spent catalysts, effluent treatment plant sludge and spent oil emulsion. We use government approved and licensed contractors to treat and safely dispose of all hazardous wastes and find environmentally friendly recycling or reuse routes. For example, spent catalysts are reused as raw feedstock for cement production.

PERFORMANCE REVIEW 2018



Environmental Incidents

HRC practises a robust process to mitigate and address any environmental incident. During 2018, we recorded one spill and three Environmental Non-Compliance cases (ENC). In each case we took immediate actions to contain and reduce the impact. The incidents were reported to the relevant authorities without delay.

During Quarter 2, dark smoke emitted during operational activities was reported by neighbouring residents. Each neighbour who contacted us was briefed on the cause and the DOE was also onboarded. The events were all short lived with no further impact. Other matters such as a temporary period of congested traffic during the major turnaround were also addressed.

In February and August, two Environment Audits were conducted by third party consultants as part of the E4M Project Environmental Impact Assessment conditions. Both audits went well, with zero non-conformances and a number of positive observations.

We incurred a fine of RM6,000 imposed from the DOE over housekeeping items found during an audit. It is significant to note there was no environmental impact and all items were closed within one week.

In recognition of our environmental management efforts, HRC received the Prime Minister's Hibiscus Award in March 2018 for Exceptional Achievement in Environmental Performance 2016 / 2017.

Full descriptions and further details can be found in the 2018 Sustainability Report.



Managing the Impact of New Initiatives

HRC carries out comprehensive Environmental, Health and Social (EHS) Impact Assessments where we integrate environmental and social factors into the way we plan, design and take investment decisions for all ongoing and current projects. We extend this practice to all new initiatives as well.

As mentioned, HRC undertook a major turnaround in 2018 and started construction on two major projects. These activities potentially have a significant impact on the surrounding communities and the environment. HRC managed each of them as follows:

- During the design stage, EHS Impact Assessments were developed to identify and eliminate or mitigate adverse social, health and environmental impacts and greenhouse gas emissions, to maximise energy efficiency and to manage waste responsibly.
- During the planning stage, the local and regulatory authorities were engaged, and the necessary licences and approvals were obtained.
- One to three months before the start of on-site work, HRC engaged community leaders and local villages to provide relevant information, and facilitated question and answer sessions. We also ensured communication channels were in place to manage any concerns.
- During the active periods, our Corporate Affairs team was actively in touch with the local communities and addressed any complaints or questions immediately.



Safe and reliable operations, anchored on high asset integrity, are the cornerstones of our good performance.

OPPORTUNITIES AND RISKS

The oil refining business has a number of inherent risks associated with personal safety, asset integrity, volatile crude and product pricing, fires and so on. Over the past 100 years the refining industry has developed very sound methodologies to manage and mitigate these risks. In previous periods, the refinery applied those methodologies to the site and we continue to further strengthen them.



MTA 2018 was completed successfully with a good safety performance.

The most critical risks for HRC in 2018 and 2019 are linked to the major infrastructure projects that will enable the Company to expand its product portfolio and ensure the efficiency and reliability of the plant in the long-run. In turn, these projects also create opportunities to further enhance our business.



Medium-term Safe and Reliable Operations

CONTEXT: MTA 2018 was driven by statutory requirements of DOSH. The MTA 2018 at the Company's Port Dickson refinery was the largest in its history.

HRC subscribes to the DOSH Special Scheme Inspection (SSI), which is a structured safety and integrity assurance programme. Part of the requirement is establishing a baseline of equipment inspection status, which requires all equipment to be inspected in 2018 to allow DOSH to renew our licence to operate.

A critical project that also took place during MTA 2018 was ATLAS II. It was successfully completed two days ahead of the planned schedule. The project was undertaken to replace the LRCCU catalyst regenerator top dome and the top dome internals. The new dome is expected to extend the LRCCU's operating life for another 20 years, enabling the refinery to operate efficiently and profitably.

The MTA also included a very large maintenance / repair scope and several hundred piping tie-ins for other major projects.

OPPORTUNITY: HRC is the first non-national oil and gas company to receive approval for a SSI. Completing all agreed inspections and demonstrating our safety assurance process to DOSH would allow us to have flexibility with turnaround schedules and would support our application to extend our operating licence period.

RISK: Planning and execution of the ATLAS II Project was crucial to a successful and timely turnaround as it was the longest task in the MTA. Any unexpected incident or significant emergent scope arising during the event would have resulted in an extended shutdown resulting in significant financial impact. HRC was able to manage and to reduce the risk to a very low probability through assigning an experienced project team and executing it in partnership with contractors that have experience on site and in the manufacturing and installation of similar units elsewhere.

There were additional risks to the overall schedule from potential delays in other MTA 2018 work on maintenance repairs, project piping tie-ins and from possible startup difficulties.

OUTCOME: On 21 October 2018, HRC announced the successful completion of its planned 11-week MTA safely, two days ahead of schedule and below budget. DOSH extended our licence to operate from the current 36 months to a maximum of 75 months. At the peak, over 3,000 workers were on site, the majority of them were Malaysian.

OPPORTUNITIES AND RISKS



Euro 4M Mogas Project

CONTEXT: The Euro 4M Mogas 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.

OPPORTUNITY: The project will allow the refinery to continue optimising its crude slate to be commercially competitive.

RISK: The schedule is possible but challenging. Mitigation measures have been put in place for unexpected delays that may potentially occur due to delay in engineering and delay in the main equipment / bulk material delivery. If there is a delay beyond the regulatory date to produce Euro 4M Mogas specification, this will require scheduling adjustments and product imports.

CURRENT STATUS: In 2018, an engineering, procurement, construction and commissioning (EPCC) contractor was awarded the job to design, procure, construct and commission the unit. Our internal projects and engineering teams focused on final engineering design and procurement of remaining equipment and bulk materials. All mechanical and electrical tie-ins to existing site were completed during MTA 2018 within the allocated budget to minimise future downtime.

Euro 4M Mogas project progress is ongoing. The project is targeted to complete by January 2020, which is the date legislated by the Malaysian Government for the new Euro 4M specification.



Clean Air Regulation (CAR) Compliance

CONTEXT: The Clean Air Regulation (CAR) was gazetted by DOE in June 2014 and is mandated for compliance in June 2019. There are three main scopes to the CAR project, which are the installation of the Air Pollution Control System (APCS) on our Platformer and LRCCU vented streams, and the Emission Monitoring System.

OPPORTUNITY: The project will significantly reduce environmental emissions from the LRCCU and Platformer with the installation of Air Pollution Control System while in the full compliance to the Clean Air Regulations, 2014.

RISK: Any delay in commissioning may result in non-compliance fines from DOE.

CURRENT STATUS: All required mechanical tie-in were executed flawlessly during MTA 2018. The three projects are all on track to complete this year. DOE is kept updated of the project's progress.



Euro 5 Gasoil Project

CONTEXT: The Government has mandated that refineries are to comply with Euro 5 gasoil specifications by 1 September 2020.

OPPORTUNITY: The project will create several hundred employment opportunities for the local / Malaysian market. Upon completion, the unit will be able to refine cheaper and higher sulphur crudes, which would potentially produce higher refining margins.

RISK: Delays in detailed engineering, arrival of Long Lead Items (LLI) or construction could result in delayed commissioning and restrictions on crude diet with material margin impacts.

CURRENT STATUS: In order to mitigate this risk, the LLI order has been expedited according to the planned schedule. All other activities are on schedule. During MTA 2018, HRC completed all tie-ins to minimise shut down required during the Euro 5 Gasoil Project commissioning and startup. Concurrently, front end engineering design and licensor selection have been successfully completed and closed. The project scope was reviewed and optimised to be fit for purpose.



H2GEN Project

CONTEXT: Post implementation of both Euro 4M Mogas and Euro 5 Gasoil 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.

OPPORTUNITY: Currently the Platformer unit is the only source of hydrogen in the refinery and any outage has a significant effect on many other units and a significant cost impact. Once the H2GEN unit is operational, the refinery will have two sources of hydrogen and those aforementioned risks will be reduced.

RISK: Any delay in project start up beyond September 2020 may result in compensation to the natural gas supplier and potential margin loss.

CURRENT STATUS: During MTA 2018, we completed all tie-ins necessary for the H2GEN Project commissioning and startup. The Natural Gas supply was awarded to a local supplier and the term sheet signed in December. The project has been approved and was awarded to an EPCC contractor to design, procure, construct and commission the unit. First production is due by September 2020, in line with Euro 5 Gasoil Project specification date. The EPCC contractor has the credentials to meet the timeline and is contractually obliged to commission the unit by September 2020.

MOVING FORWARD

As discussed under the Commercial section above, the outlook for margins remains soft. The Asian region may have continued refinery capacity oversupply and softer product demands, while global trends are likely to maintain crude and product price volatility.



We continuously focus on optimising performance.

HRC will continue to optimise the refinery's commercial capabilities by:

- Increasing crude optimisation and diversification through:
 - increasing new crudes and feedstock processing to optimise crude value to the site;
 - enhancing trade relationships with crude suppliers; and
 - increasing production optimisation predominantly attributed by diversifying product outlets and reducing the variation in crude compositions for uninterrupted processing at the plant.
- Increasing production optimisation by continuing to aggressively negotiate for terms and open new supplier chains.
- Hedge hydrocarbon prices to minimise downside risk.
- Increasing unit throughputs and operational flexibility which allows us to widen the residue feed basket.
- Improve refinery unit reliabilities by assessing and mitigating LRCCU, Platformer and Utility threats.
- Closure or management of margin threat items such as energy / flaring performance, product quality performance and oil loss.

2018 was a year of construction. 2019 will be a year of consolidation and the years after that should be centered on harvesting the profits and benefits. As we move into 2019, our key focus will be in the following seven areas:

- **Personal Safety & Process Safety;**
- **Plant Reliability;**
- **Operational Excellence - aggressive price negotiations and hydrocarbon hedging to deliver the maximum available margin;**
- **Assets Rejuvenation;**
- **Project Execution and Commissioning;**
- **Talent Management and Staff Retention; and**
- **Governance and Controls**



Despite the challenges ahead, we continue to invest in the future and focus on sustaining margins by remaining agile and responsive to challenges.



BECOMING AN EMPLOYER OF CHOICE

Established since 1963, HRC has played a dynamic role within Malaysia's economic and social fabric over the last five decades. We have provided employment opportunities to the local communities and are proud to have three generations of families growing together with the Company.



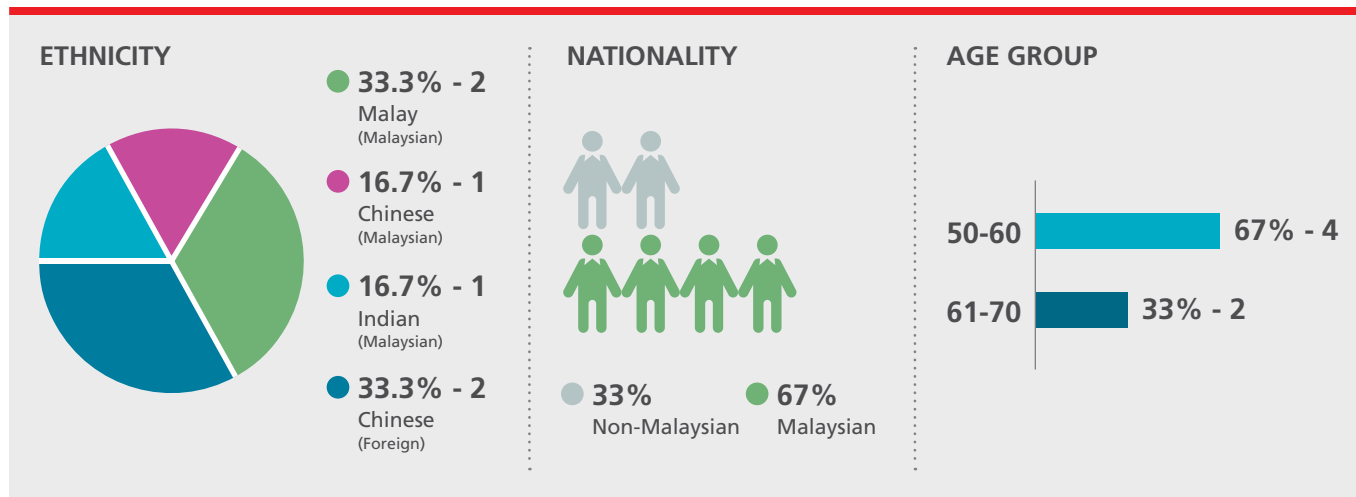
“ My father worked with the company for 28 years, and this year would be my 29th year with HRC. Both of us are glad that my daughter followed in our footsteps and has become part of the company. We are honoured and pleased to work in this inspiring refinery. HRC definitely holds a very special place in our hearts! ”

Lee Kok Kuen
Production Unit 1 Manager

Photographed with his father, Lee Choon Pert and daughter, Lee Karh Mern

BOARD OF DIRECTORS' PROFILE

BOARD DIVERSITY



Wang YouDe

Chairman
Non-Independent Non-Executive Director

Chinese 56 years old Male

Date of Appointment

22 December 2016

Qualifications / Membership of Associations

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-present)
- 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 Projects Review Committee
- Chair of Board Tender Committee
- Member of Board Nominating and Remuneration Committee

Wang ZongQuan

Deputy Chairman
Non-Independent Non-Executive Director

 Chinese 56 years old Male

Date of Appointment

22 December 2016

Qualifications / Membership of Associations

Degree in Chemical Machinery, Chengdu Institute of Water Conservancy and Hydropower Survey and Design

Experience

- Deputy General Manager, Shandong Hengyuan Petrochemical Company Limited (2002-present)
- 14 years experience 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 of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

- Chair of Board Risk Management Committee
- Member of Board Projects Review Committee
- Member of Board Tender Committee

Alan Hamzah Sendut

Independent Non-Executive Director

 Malaysian 59 years old Male

Date of Appointment

25 May 2017

Qualifications / Membership of Associations

- Bachelor of Science (Hons) University Of Wales, Aberystwyth, United Kingdom
- Qualified as a Member of the Institute of Chartered Accountants England and Wales
- Chartered Audit Committee Director, Institute of Internal Auditors Malaysia
- Member of the Malaysian Institute of Accountants
- Fellow of the Institute of Corporate Directors Malaysia

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:
 - 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 of Other Listed Issuers / Public Companies

Hong Leong Islamic Bank Berhad

Membership of Board Committees in HRC

- Chair of Board Audit Committee
- Member of Board Risk Management Committee
- Member of Board Tender Committee

BOARD OF DIRECTORS' PROFILE

Fauziah Hisham

Independent Non-Executive Director

 Malaysian 63 years old Female

Date of Appointment

1 June 2017

Qualifications / Membership of Associations

Associate member of The Institute of Chartered Secretaries & Administrators, United Kingdom

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 (January 2015 to March 2018)
 - Country Group Representative & Executive Director, Institutional Banking, Australia & New Zealand Banking Group Ltd
 - Managing Director, Strategic Client Coverage Group, Standard Chartered Bank Malaysia Berhad
 - Chief Executive Officer, J.P. Morgan Chase Bank Berhad (February 2002 to February 2006)

Directorship of other Listed Issuers / Public Companies

- Agensi Kaunseling & Pengurusan Kredit (a subsidiary of Bank Negara Malaysia)
- Malayan Banking 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 63 years old Male

Date of Appointment

1 June 2017

Qualifications / Membership of Associations

- Bachelor of Science (Hons) University of Malaya
- Member of the Malaysian Institute of Chemistry

Experience

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

Directorship of other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

- Member of Board Audit Committee
- Member of Board Risk Management Committee
- Member of Board Tender Committee

Surinderdeep Singh Mohindar Singh

Independent Non-Executive Director

 Malaysian 50 years old Male

Date of Appointment

23 February 2019

Qualifications / Membership of Associations

- Bachelor of Computer Science (Hons) University of Technology, Malaysia
- Master of Business 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 (2011-2014)
 - 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 Technical Analyst with Pilipinas Shell Petroleum Company and Shell Malaysia Trading Sdn Bhd (1993-2004)

Directorship of 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

David Ronald Keat

Chief Executive Officer

New Zealander 58 years old Male

Appointed with effect from

March 2018

Experience

David holds Degrees in Chemical Engineering (Chemical and Materials) and Science (Chemistry) in University of Auckland, New Zealand and has 34 years of experience in the oil and gas industry.

He began his career with Shell in the New Zealand Refining Company Ltd in 1985. Since then, he has held a wide range of operational, technical, project and executive roles in oil refining, gas and Gas to Liquids in New Zealand, Oman, Abu Dhabi, the Netherlands and Malaysia. He was the Refining Manager in New Zealand, Vice President Technical Support in a large sour gas plant in Abu Dhabi and SMDS Operations Manager in Bintulu, Malaysia. Other significant roles have been in Operations, Technology, IT, E&S and Major Projects.

He was appointed as Chief Operations Officer in November 2017 before assuming his current role.

Jocelyn Wang Chao-Jen

Deputy Chief Executive Officer

Taiwanese 55 years old Female

Appointed with effect from

June 2018

Experience

Jocelyn holds a Bachelor's Degree in Accountancy from Fu-Jen Catholic University, Taiwan and has 30 years of extensive experience in a wide range of operational and executive roles in Taiwan, China and global organisations.

She began her career in 1988 as a Finance Auditor at KPMG Taipei and from 1992 was the Finance Manager of Taiwan Chlorine Industries. She joined Shell Taiwan in 2000 as the Finance Vice President of CPC and Shell Lubricants Corporation and was reassigned to Shell China in 2004 for various senior managerial positions, including Finance Manager of China Retail, Deputy General Manager of Yueyang Sinopec and, Shell Coal Gasification Company, and Regional Audit Manager, Finance of Shell Internal Audit. During her tenure in China Retail, she was also appointed as the Finance Director in seven joint venture companies, making significant contributions to the joint venture governance of China Retail.

Foo Ai Li

Chief Financial Officer

Malaysian 43 years old Female

Appointed with effect from

February 2017

Experience

Ai Li holds a Degree in Accounting from Lincoln University, New Zealand and is a member of the Institute of Chartered Accountants Australia and New Zealand and the Malaysian Institute of Accountants.

She joined Shell in 2002 after three years of external audit exposure. Her experience includes six years of regional treasury and five years of statutory reporting, hydrocarbon accounting and management information. She also held a global role overseeing 300 staff in Shell's finance operations managing billing for the Royal Dutch Shell Group. Ai Li was the General Manager, Finance in Shell MDS Sdn Bhd managing the finance function for manufacturing and marketing until she rejoined the Port Dickson refinery in 2016.

Eric Lee Chiong Wong

Chief Operations Officer

Malaysian 58 years old Male

Appointed with effect from

December 2018

Experience

Eric holds a Degree in Engineering (Mechanical) from the National University of Singapore and has 34 years of working experience, of which 28 years have been in the oil and gas industry.

He began his career with Ebara Engineering Singapore Pte. Ltd. in 1985, and joined Shell SMDS (Malaysia) Sdn Bhd in 1991. Since then, he has held a wide range of technical, maintenance, operational and management roles in SMDS, management and consultancy roles in Gas to Liquids, gasification and clean coal energy with Shell Global Solutions in The Netherlands and China. His last job was the General Manager for Coal Gasification Technology and Technical Services in Shell Projects and Technology Worldwide and based in Beijing, China. Other significant roles have been in IT and asset management, Turnarounds and Major Projects.

Zulhazmi Mohamad

Chief Projects Officer

Malaysian	48 years old	Male
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Appointed with effect from

March 2018

Experience

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 24 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 startup 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. In his current role, he oversees several major projects in HRC such as Project E4M Mogas, Clean Air Regulation, H2GEN, E5G and ATLAS II.

William Chen Jung Huei

Chief Commercial Officer

Taiwanese	46 years old	Male
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Appointed with effect from

April 2017

Experience

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.

Johan Jainudin

Senior Manager, Technology

Malaysian	41 years old	Male
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Appointed with effect from

February 2012

Experience

Johan has a Degree in Chemical Engineering from University of Manchester Institute of Science and Technology (UMIST), UK, and is a Chartered Engineer of the Institution of Chemical Engineers (IChemE) and Engineering Council, UK. He has 19 years of experience in the oil and gas industry.

He started his career with PETRONAS in 1999. He has worked for 17 years in the refining industry in various roles including technical services, production and major project design and commissioning. He also held a strategic planning role for two years where he worked on group-level strategy projects.

Zackaria Abdulah

Manager, Quality and HSSE

Malaysian	39 years old	Male
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Appointed with effect from

November 2012

Experience

Zackaria holds a Bachelor of Environmental Sciences & Management (Hons) from the University of Malaya, and is a Certified ISO 14001 Lead Auditor by IRCA. He has over 15 years of experience in the field of HSSE and Quality Assurance, with expertise in HSSE regulatory compliance, management systems, incident investigation and emergency response.

Prior to joining HRC, he was with Schlumberger, BP, Accenture and Dutch Lady in various capacities, including senior roles at site level, corporate and consulting.

MANAGEMENT TEAM PROFILE

Lim Heng Cheh

Senior Manager, Engineering

Malaysian	38 years old	Male
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Appointed with effect from

June 2018

Experience

Heng Cheh holds a Degree in Mechanical Engineering (Manufacturing) in Universiti Teknologi Malaysia (UTM) and has 16 years of experience in the oil and gas industry.

He began his career with Shell Refining Company (FOM) Berhad in 2002. Since then, he has held various roles in the refinery covering maintenance, mechanical engineering, streamline & GSAP implementation, project engineering and turnaround management.

He was appointed as Engineering Manager (Acting) in June 2018 while double hatting as Turnaround Event Manager for the major turnaround which was completed successfully in October 2018.

Rosie William Omar

Contracts and Procurement Manager

Malaysian	52 years old	Female
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Appointed with effect from

July 2018

Experience

Rosie holds a Degree in Mechanical Engineering from the University of Texas at El Paso, USA, and is a Chartered Member of the Chartered Institute of Procurement and Supply, UK, with 26 years of experience in the oil and gas industry. She began her career with Sarawak Shell Berhad based in Miri, Sarawak in 1990. Since then, she has held multiple roles in both local and global capacities, including key management roles within the Contracting and Procurement portfolio such as materials management and has comprehensive experience in internal auditing for projects and technology with the Shell Group Internal Audit for the Asia Pacific region.

Islamiah Idris

Human Resources Manager

Malaysian	51 years old	Female
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Appointed with effect from

August 2018

Experience

Islamiah graduated from Universiti Kebangsaan Malaysia (UKM) with LLB.Hons in 1992 and was admitted to the Malaysian Bar in 1993.

She started her career as a Magistrate in the KL Magistrate Court and subsequently became a Human Resource practitioner. Prior to joining Hengyuan Refining Company Berhad, she was the Human Resource Manager for Shell Malaysia Trading Sdn Bhd and the downstream business for Shell in Malaysia. She has working experience in several multinational companies such as Motorola Malaysia and amura Electronics (M) Sdn Bhd..

Islamiah is not new to the Company as she was formerly the Human Resource Manager from 2006 to 2009.

Nur Izatul Fitri Hussein

Chief Internal Auditor

Malaysian	36 years old	Female
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Appointed with effect from

February 2018

Experience

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 and Chartered Accountant who has over 13 years of extensive and varied experience in internal controls, enterprise risk management and corporate governance.

She is a Chartered Member of The Institute of Internal Auditors Malaysia and member of the Malaysian Institute of Accountants. 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 Management Officer, specialising in financial and operational audit, governance and compliance, business and project risk, business continuity management, project management review and fraud investigation.

Eddie Lim Yong Joo

Risk and Integrity Officer

Malaysian	32 years old	Male
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Appointed with effect from

April 2018

Experience

Eddie holds a Bachelor of Commerce (Hons) Accounting from Universiti Tunku Abdul Rahman. He is a Certified Internal Auditor and Chartered Accountant who has over 11 years of extensive and varied experience in internal and external audits, business process control, risk management, fraud investigation, corporate governance and corporate integrity.

He is a Chartered Member of The Institute of Internal Auditors Malaysia, Fellow Member of Association of Chartered Certified Accountants and member of Malaysian Institute of Accountants. He began his career with a reputable audit firm before joining a few public listed companies from diverse industries as Internal Auditor and Risk Manager.

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A photograph of two workers in red safety suits and hard hats standing in an industrial facility. The worker on the left is wearing a white hard hat and is talking on a mobile phone. The worker on the right is wearing a red hard hat and has their arms crossed. The background is filled with complex industrial structures, pipes, and scaffolding under a clear sky.

ENSURING SAFE OPERATIONS

We launched our 'Just Intervene' campaign in January 2018. The campaign is aimed at creating a comfortable culture and amplifies the importance of intervention by all parties on site to prevent incidents and keep each other safe. HRC recorded an increase in unsafe act intervention reporting of 34 per cent as compared to 11 per cent in 2017, reflecting an improvement towards a healthy intervention culture.



“ As a responsible organisation, we place high importance on the safety of all those impacted by our operations, including our employees, contractors and surrounding communities. Our QHSSE management and performance are governed by well-established governance structures and stringent standards. ”

Zackaria Abdulah, HRC Quality, Health, Safety, Security and Environment Manager

CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (Board) of Hengyuan Refining Company Berhad (Company) is pleased to provide an overview of the Company's corporate governance practices with reference to the Malaysian Code on Corporate Governance 2017 (MCCG 2017).

The Company's application of each practice recommended by MCCG 2017 is disclosed in the Company's Corporate Governance Report (CG Report) which is made available on the Company's website at www.hrc.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The Board shoulders the ultimate responsibility of determining the direction of the Company and monitoring the Company's performance, thereby ensuring the long-term success of the Company, and the delivery of sustainable value to its shareholders within a framework of prudent and effective controls that enable risks to be assessed and managed.

The Board continues to be supported by five (5) Board Committees (Committees) as follows:

(i) Board Audit Committee (BAC)

The BAC assists and supports the Board to monitor the Company's management of financial risk processes, accounting functions and financial reporting practices to ensure proper internal controls are implemented to enhance the independence of both the external and internal control functions.

(ii) Board Nominating and Remuneration Committee (BNRC)

The BNRC continues to support the Board in both nomination and remuneration functions which include: (a) recommending to the Board the appointments of directors; (b) evaluating and recommending to the Board the employment, promotion, discipline and termination of key senior management positions; and (c) assisting the Board to establish formal and transparent remuneration policies and procedures for directors, key senior management positions and expatriate employees of the Company to ensure fair rewards for their contributions to the Company's overall performance.

(iii) Board Risk Management Committee (BRMC)

The BRMC ensures comprehensive policies on risk management are in place to identify, measure and mitigate the potential impact of key business risks.

(iv) Board Projects Review Committee (BPRC)

The BPRC oversees the strategy, financial, funding, contractual arrangements and project governance of major and / or selected projects, and ensures that the benefits expected from such projects are delivered.

(v) Board Tender Committee (BTC)

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

The principal responsibilities of the Board are set out in the Board Charter which is made available on the Company's website at www.hrc.com.my.

Separation of Positions of the Chairman and Chief Executive Officer

Wang YouDe continues to effectively lead as Chairman of the Board by promoting a positive culture of openness and debate during Board meetings, providing views on strategic direction and priorities of the Company, ensuring members of the Board receive information on emerging issues in a timely manner and instilling good corporate governance practices within the Company.

The CEO of the Company is David Ronald Keat, who is not a member of the Board.

Company Secretary

The Company Secretaries are qualified under the Companies Act 2016 and are members of the Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The Company Secretary's responsibilities include attending Board and Committee meetings, ensuring minutes of meetings reflect accurately the deliberations and decisions made by the Board and Committees, advising members of the Board and Committees of their role and responsibilities, facilitating directors' orientation, training and development and advising the Board on changes and updates to laws, rules and guidelines which may affect the Company.

Access to Meeting Materials

It is important for the members of the Board to receive complete and accurate meeting materials within a reasonable period prior to Board and Committee meetings. The effectiveness and timeliness for distribution of meeting materials have improved with the support of a digital platform subscribed by the Company which allows members of the Board and Management to download and view meeting materials that are uploaded within seconds.

Code of Conduct, Whistleblowing Policy and Anti-Bribery & Corruption and Anti-Money Laundering Manual

The Company continues to enforce strict compliance to its Code of Conduct to achieve the highest standards of integrity, openness and accountability in the conduct of its business and operations, addressing areas such as unethical behaviour, conflicts of interest, breaches of laws and regulations, insider dealing, misuse of information technology and electronic communications, risk management of data privacy, intellectual property, information and records management and business communication.

The Company's Whistleblowing Policy was established to encourage and facilitate the disclosure of genuine and legitimate improper conduct within the Company raised by employees of the Company or members of the public. The Chair of the BAC continues to oversee the whistleblowing function to ensure effective actions are taken in response to the concerns over wrongdoings raised.

To complement the Code of Conduct, the Company also introduced the Anti-Bribery & Corruption and Anti-Money Laundering Manual (ABC & AML Manual) to set out HRC's policies on anti-bribery and corruption and anti-money laundering.

The Company's Code of Conduct, Whistleblowing Policy and ABC & AML Manual are published in the Company's intranet and website at www.hrc.com.my.

II. BOARD COMPOSITION

The Board currently consists of six (6) directors with the majority of its members being independent non-executive directors to ensure a balance of power and authority within the Board.

The Board Charter of the Company limits the tenure of independent directors to a term of nine (9) years. The Company has adopted the recommendation of the MCCG 2017 to obtain shareholders' approval if the Board wishes to retain an independent director beyond nine (9) years.

The Board recognises the importance of having a diverse Board with a mix of relevant skills, expertise and experience to provide different perspectives and insights for decision making in the best interests of the Company.

The variety of skills and experiences of Board members are illustrated in the chart below:

No	Skills & Experience	No of Directors
1	Corporate Governance	5
2	Regulatory Compliance / Legal	4
3	Internal Controls / Risk Management / Audit	5
4	Finance: Accounting / Treasury / Tax	3
5	Corporate finance / Mergers & Acquisitions	3
6	Quality, Health, Safety, Security and Environment (QHSSE)	4
7	Strategy and Oil & Gas	5
8	Supply / Marketing / Sales	4
9	Contracting and Procurement	3
10	Project Management / Engineering	3
11	Human Resource & Development	4
12	Information Technology	1

The Board recognises the importance of gender diversity and has updated the Board Charter to ensure that it must, to the best of its ability, achieve at least 30 per cent women directors.

After the departure of Lim Tau Kien as the Senior Independent Non-Executive Director of the Company with effect from 22 February 2019, the Board has only one (1) woman director, which makes up 17 per cent of the Board. While HRC supports gender diversity, the assessment of candidates for the Board based on skills, knowledge, expertise, experience, character, integrity and number of directorships in companies outside HRC will remain as the priority for any appointment.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

III. BOARD NOMINATING AND REMUNERATION COMMITTEE

The BNRC considers and recommends candidates for directorship based on a mix of skills, knowledge, professionalism, integrity, experience and other qualities. The current independent non-executive directors were appointed after considering qualified candidates proposed by existing Board members, Management, major shareholders and independent sources.

The BNRC was chaired by Lim Tau Kien as the Senior Independent Non-Executive Director until her resignation with effect from 22 February 2019. The BNRC is currently chaired by Surinderdeep Singh Mohindar Singh, an Independent Non-Executive Director of the Company who was appointed to the Board and BNRC with effect from 23 February 2019.

Surinderdeep Singh Mohindar Singh was recommended as a Director to the Board by Wang YouDe, the Chairman and Non-Executive Non-Independent Director of the Company. His appointment was tabled and approved by the Board based on his qualifications and previous experience in the Shell group of companies.

Board Effectiveness Assessment

The Board Effectiveness Assessment for the financial year 2018 (BEA 2018) was conducted and reviewed in March 2019 through self-assessment and peer review by members of the Board.

Remuneration of Individual Directors

Details of the remuneration of individual Directors, including fees, salary, bonus, benefits-in-kind and other emoluments (received or to be received from the Company) for the financial year ended 31 December 2018 are as follows:

(in RM'000)	Salary, bonus and salary related benefits	Directors' fees	Attendance and other remuneration	Total
Wang YouDe	–	558	5	563
Wang ZongQuan	–	256	5	261
Lim Tau Kien	–	473	8	481
Alan Hamzah Sendut	–	242	6	248
Fauziah Hisham	–	226	6	232
Liang Kok Siang	–	219	6	225
		1,974	36	2,010

The directors of the Company were insured against certain liabilities under a Directors' and Officers' Liability insurance policy for which the Company paid an aggregate sum of RM57,000.

Based on the results of BEA 2018, the Board is satisfied with its overall structure and composition, Board operations and interactions, roles and responsibilities, strategy planning, performance management, human capital management, risk management and internal control.

The BAC and BNRC also carried out a self-evaluation of its composition, operations, interactions and roles and responsibilities. The assessment showed that members of both committees are satisfied with the overall effectiveness of the BAC and BNRC.

Directors' and Management's Remuneration Policies and Procedures

The BNRC's Terms of Reference provides that the BNRC shall ensure that compensation policies and packages of Directors and senior management 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 Terms of Reference of the BNRC was updated on 27 August 2018 and is published on the Company's website at www.hrc.com.my

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. BOARD AUDIT COMMITTEE

The BAC comprises 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 and corporate governance, which enables the BAC to discharge its duties.

The BAC members are also expected to undertake continuous professional development to keep abreast of relevant developments in accounting and auditing standards, practices and rules.

The BAC is currently chaired by Alan Hamzah Sendut, an Independent Non-Executive Director who is not the Chairman of the Board.

The Terms of Reference of the BAC provides that a former key audit partner of the external auditors shall be subject to a minimum two (2) year cooling-off period before being appointed as a member of the BAC. At present, none of the Board members are or have been a key audit partner of the Company's external auditors.

The BAC's report is available on page 67 of this Annual Report.

II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board is committed to maintaining a sound internal control and risk management system to ensure the smooth progress of the business and to enhance resilience to external events by avoiding or mitigating potential risks that can cause loss, reputational damage or business failure.

The Board is assisted by the BRMC which comprises three (3) members, two (2) of whom are independent non-executive directors. Wang ZongQuan is currently the chair of BRMC.

The BRMC provides oversight and direction on risk management matters to ensure prudent risk management of the Company's business and operations and to ensure that comprehensive policies of risk management are set up to identify and measure the potential impact of key business risks as well as to manage and counter such threats.

Further details of the risk management and internal control framework are provided in the Board's Statement on Risk Management and Internal Control and is available on page 62 of this Annual Report.

Internal Audit Function

The BAC has the responsibility of ensuring that proper internal controls are implemented to enhance the independence of

both the external and internal audit functions by providing direction and oversight of the functions on behalf of the Board.

The Company's internal audit charter provides that the internal audit department will maintain its objectivity and independence at all times and will have no direct operational responsibility or authority over any of the activities audited.

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's investor relations function is handled by the Corporate Affairs Department, which is the main point of communication for shareholders, investors and other stakeholders. The Company has been in communication with stakeholders via quarterly financial reports, annual reports, sustainability efforts, announcements, circulars and press releases, which are made available on the Company's website at www.hrc.com.my.

II. Conduct of General Meetings

As provided in the Board Charter of the Company, the Board shall ensure that shareholders are given all necessary information and notice of the Company's annual general meeting at least twenty-eight (28) days prior to the meeting.

The Company regards general meetings as important platforms for dialogue amongst Directors, Management and shareholders and aims to encourage active participation of shareholders during such meetings. The Board Charter of HRC provides that all Directors and the Chairs of the respective Committees must attend general meetings to allow shareholders to raise questions and receive meaningful responses to questions raised by them.

All Directors and Chairs of the respective Committees had attended the Company's 59th Annual General Meeting held at Sime Darby Convention Centre on 24 May 2018. During the meeting, the Directors and Management had responded to key matters raised by the shareholders in relation to the performance of the Company.

The minutes of the 59th AGM are published at www.hrc.com.my.

The Company's Corporate Governance Overview Statement and CG Report were approved by the Board on 29 March 2019.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (Board) of Hengyuan Refining Company Berhad (HRC) 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 2018.

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 the external and internal 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 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 are monitored and the results are presented during the BRMC meeting.

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 management function was formalised to provide an enterprise-wide view of risk management within HRC.

The 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 to enable 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.

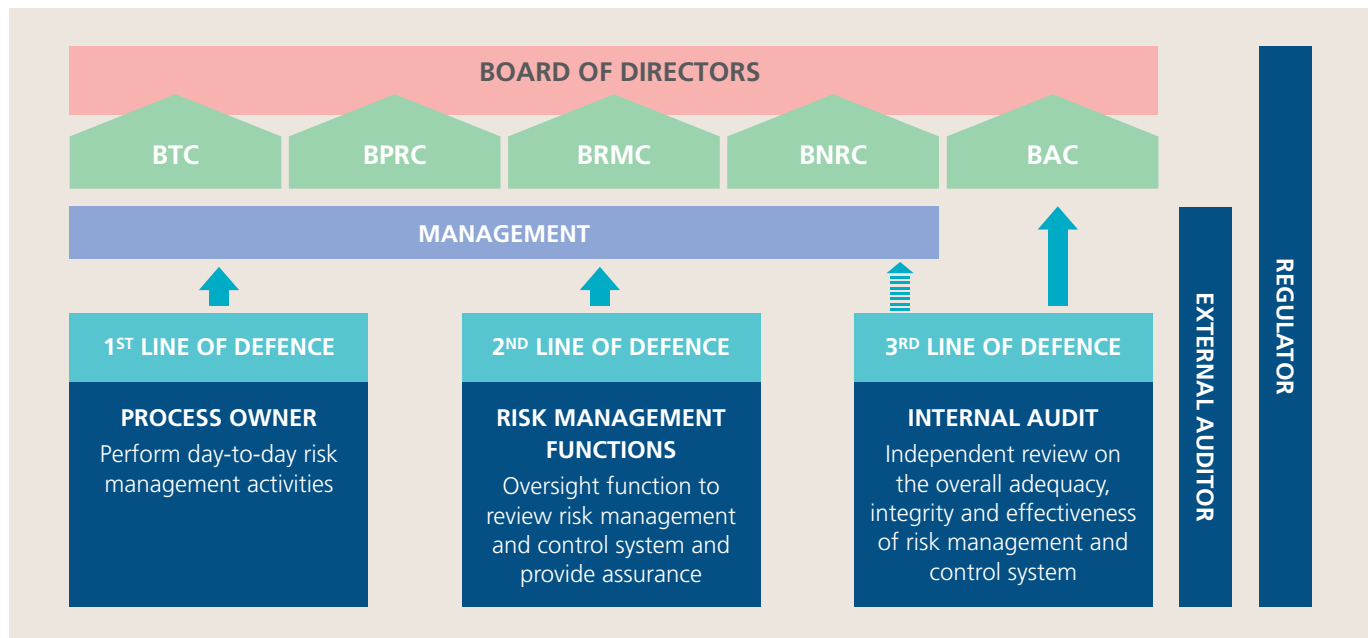
Fit-for-purpose risk responses are primarily intended to:

- 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 form 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 ISO 31000:2018 (Risk Management) to manage the risks of its business and operations. HRC has an established and structured process for the identification, assessment, communication, monitoring and continual review of risks and the effectiveness of risk mitigation strategies and controls.

HRC's risk management framework is backed up by the implementation of three lines of defence that distinguishes the three groups which are involved in effective management of risk in HRC. In 2018, the Board has strengthened the lines of defence by appointing a Chief Internal Auditor and a Risk and Integrity Officer. The Risk and Integrity Officer'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.

THREE LINES OF DEFENCE



Note: The director membership of each Board Committee is shown under the Board of Directors' profile on page 48 of the Annual Report.

INTERNAL CONTROLS

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

1. AUTHORITY AND RESPONSIBILITY

- Certain responsibilities are delegated to Board Committees through clearly defined Terms of Reference (TOR) which are reviewed annually.
- The Manual of Authority 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

- 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.
- The Management Team serves in an advisory capacity to the Chief Executive Officer and Deputy Chief Executive Officer in accomplishing the vision, strategies and objectives set for HRC.
- 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

3. PLANNING, MONITORING AND REPORTING

- a. An annual planning and budgetary exercise is 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 would recommend the 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. 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.
- d. 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 2018 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. COMPLIANCE MANAGEMENT

The Management team led by the Chief Executive Officer is responsible in ensuring day to day operational compliance within the Company.

HRC's compliance management covers 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 2018, no major non-compliance was encountered.

6. CODE OF CONDUCT

The Code of Conduct (Code) applies to every employee, director and officer 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, contractors and consultants.
- 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.

7. ANTI-BRIBERY & CORRUPTION AND ANTI-MONEY LAUNDERING MANUAL

In 2018, HRC established the Anti-Bribery & Corruption and Anti-Money Laundering Manual (ABC & AML Manual) that outlines the procedure, integrity screening and ethical behaviour expected from the employees and business associates to avoid any instances of bribery, corruption or receipt of monies streamed from money laundering activities.

The ABC & AML 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 ABC & AML Manual covers areas such as:

- a. The contracting and procurement process
- b. Offering and receiving gifts and hospitality
- c. Conflicts of interest
- d. Facilitation payments
- e. Funding social investments, donations and sponsorship
- f. Political payments and activities
- g. Recruitment

The ABC & AML 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 through a supplier summit and awareness programme held on 5 - 7 December 2018. Employees and parties having business dealings with HRC have been requested to sign a declaration of their commitment to comply with the ABC & AML Manual and to disclose any conflict of interest via HRC's annual declaration process.

HRC is committed to obtaining certification in ISO 37001 (Anti Bribery Management System) and has targeted to complete this in 2019.

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

8. INFORMATION AND COMMUNICATIONS TECHNOLOGY

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

HRC has been certified for the Information Security Management Systems (ISMS), MS ISO / IEC 27001:2013 in 2018 and continues 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. An employee who whistleblows 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 at 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 HRC Sustainability Report 2018.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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 2018, the following reviews were performed and reported to the BAC:

- a. Audit engagements were carried out based on the 3-year internal audit plan and 4-year assurance 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 System), ISO 45001:2018 (Occupational Health and Safety Management Systems), ISO 27001:2013 (Information Security Management Systems); and
 - Department of Standards Malaysia for ISO/IEC 17025:2017 (Accreditation for Testing and Calibration Laboratories).

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

REVIEW OF THIS STATEMENT

As required by Paragraph 15.23 of the Listing Requirements, 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 Chief Executive Officer and the Deputy Chief Executive Officer 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 the Annual Report.

This statement is approved by the Board of Directors on 29 March 2019.

BOARD AUDIT COMMITTEE REPORT

INTRODUCTION & COMPOSITION

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, the oil and gas industry, strategy and corporate governance, which enables the BAC to discharge its duties.

The BAC consists solely of independent non-executive directors. The independent non-executive directors are able to exercise strong independent judgement and provide balance to the Board with their unbiased and independent views on all Board deliberations.

The current members of the BAC are Alan Hamzah Sendut (Chair), Fauziah Hisham, Liang Kok Siang and Surinderdeep Singh Mohindar Singh. Lim Tau Kien was a member of the BAC until her resignation with effect from 22 February 2019.

MEETINGS

The BAC held five (5) meetings during the financial year ended 31 December 2018. Details of the meetings and the attendance of BAC members are set out on page 143 of the Annual Report.

HRC's Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Internal Auditor and PricewaterhouseCoopers PLT (PwC), as external auditors of the Company, were invited to attend BAC meetings to brief the BAC on specific issues as and when required.

PwC had presented its audit plan to the BAC prior to the commencement of their annual audit. PwC subsequently briefed the BAC on the outcome of the statutory audit for the financial year ended 31st December 2018 and quarterly reviews (where applicable), significant auditing and accounting matters, internal control recommendations and developments in relevant laws and regulations.

The BAC held its independent meeting with PwC on 19 November 2018 without the presence of Management to discuss and provide feedback on the Company's quarterly financial review, the level of cooperation received from Management, any specific audit concerns and the quality of financial reporting.

Minutes of the BAC meetings were circulated to all BAC members and significant issues were highlighted by the BAC Chair at Board meetings for further discussion and deliberation. Where applicable, recommendations were tabled to the Board for approval.

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 Terms of Reference of the BAC are accessible for reference on the Company's website at www.hrc.com.my

A summary of the BAC's key activities for the financial year ended 31 December 2018 are set out as follows.

BOARD AUDIT COMMITTEE REPORT

Internal Audit and Assurance Plan 2018

The BAC oversaw HRC's approved internal audit and assurance plan for the year 2018 which consisted of six (6) regulatory and statutory audits, twelve (12) internal audits and nine (9) process effectiveness reviews 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 17025 Recertification
ISO 9001 Recertification
ISO 14001 Recertification
ISO 45001 Upgrading / OHSAS18001 Recertification
ISO 27001 (Stage 1 and Stage 2) Certification
Internal Audits
Procurement-to-Payment
Related Party Transactions
Competency Development Assurance
Management of Change
ISO 9001, 14001 & 45001
ISO 17025
ISO 27001
Ensure Safe Production
Hazard and Effect Management Process
Basic Data
Safety Critical Equipment
Turnaround Assurance Review 3
Process Effectiveness Reviews
Pressure Equipment Integrity
Ensure Plan Delivery
Maintenance Execution
Capital Project
Refinery Plan Scheduling
Instrument Protective Function
Custody Transfer Meter & Hydrocarbon Management
Causal Learning
Turnaround Post Implementation Review

The progress of the Internal Audit and Assurance Plan 2018 and its audits were reported to the Board on a quarterly basis.

During the course of the year, the BAC also approved four (4) special reviews on significant business processes and reviewed six (6) reports from whistleblowing disclosures.

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.

Internal Audit

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 Management, the BAC and the Board. The department is led by a Chief Internal Auditor who reports functionally to the BAC Chair and administratively to the Deputy Chief Executive Officer; and
- (2) HRC's Site Internal Assurance (SIA), which comprises 32 trained and / or 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 Chief Internal Auditor before finalisation.

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 under review was RM640,000.

External Audit

The BAC reviewed PwC's audit plan and scope for the financial year ended 2018 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 the financial results for certain quarters during 2018 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.

The non-audit fees for 2018 incurred by HRC amounted to RM254,050. This included work provided by PwC on a forensic review, penetration testing, review of management's assessment of the Company's compliance with the Malaysian Code on Corporate Governance 2017 (MCCG 2017), the Companies' Act 2016 (CA2016) and the main market listing requirements of Bursa Malaysia Securities Berhad's (Listing Requirements), assistance with annual tax return submission, advice on country-by-country reporting and trainings / updates ahead of the re-introduction of sales and services tax.

The BAC is satisfied with the objectivity and independence of PwC, whose appointment was approved by shareholders of the Company at HRC's 59th Annual General Meeting.

Financial Reporting

The BAC reviewed HRC's quarterly financial statements for the year 2018. The condensed financial statements were prepared in accordance with the requirements of the Malaysian Financial Reporting Standard (MFRS) 134 "Interim Financial Reporting" and paragraph 9.22 of the Listing Requirements.

The annual audited financial statements for the year ended 2017 was also discussed and reviewed during the BAC's meeting on 30 March 2018 to ensure that it was compliant with the provisions of CA2016, Listing Requirements, applicable approved accounting standards, new accounting standards and other legal and regulatory requirements.

Related Party Transactions

In the year 2018, the BAC reviewed the Company's Circular to Shareholders in relation to the proposed renewal of shareholders' mandate and the proposed new shareholders' mandate for recurrent related party transactions for the period from 24 May 2018 to the 60th Annual General Meeting of the Company.

Following the resignation of Maarten Stals on 1 March 2018 and in accordance with the Listing Requirements, the Shell group of companies ceased to be a party related to HRC from 1 September 2018.

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

Others

Other matters discussed by the BAC during its meetings include:

- (a) The review of the BAC Report and the Statement on Risk Management and Internal Control for the financial year ended 31 December 2017 during the BAC's meeting on 30 March 2018 for the purpose of inclusion in the Company's 2017 Annual Report;
- (b) The progress of HRC's change of functional currency from MYR to USD and the changes that had applied to the accounting, finance and tax related aspects of the Company;
- (c) HRC's compliance with MCCG 2017;
- (d) HRC's acceptance of banking, financial and insurance services from licensed institutions, which are necessary for its working capital and capital expenditure;
- (e) The Company's cash forecast and financing planning;
- (f) The implementation of the HRC Control Framework, which integrates and unifies the existing internal controls and structures of the Company and provides the framework for further enhancements with the organisation;
- (g) The revised Anti-Bribery & Corruption and Anti-Money Laundering Manual, which was subsequently approved by the Board of Directors on 23 November 2018;
- (h) The review of HRC's Treasury Policy, which includes the Company's policies on the management of cash, capital and financial risk;
- (i) The review of the Company's Contracting & Procurement Policy, which sets out the foundation of governance of HRC's contracting and procurement activities which are further supplemented by the Contracting Policies and Procedures Manual;
- (j) The internal audit plan for the year 2019;
- (k) The review of Internal Audit Charter and Framework;
- (l) HRC's information technology initiatives and programmes for improving the efficiency, security and robustness and risk management actions taken against cyber or digital threats; and
- (m) Whistleblowing and other business integrity related cases reported to the BAC, where the BAC ensured that appropriate actions were taken.



CARING FOR THE ENVIRONMENT

HRC partnered with 30 students and representatives from Chung Hua High School on 12 August 2018 to clean up *Taman Komuniti Awam Port Dickson, MPPD*, a popular recreational spot in Port Dickson. This is just one of the several CSR activities HRC does with students to help inculcate an appreciation for the environment.

“ Being a good neighbour requires us to create positive socio-economic impact for our community. By working together we also forge closer bonds and create better understanding. ”

Fauzi Othman, HRC Government Relations Manager

