

HERE TO STAY HERE TO GROW



2019 ANNUAL REPORT

Hengyuan Refining Company Berhad

Registration No. 196001000259 (3926-U)



HERE TO STAY. HERE TO GROW.

Hengyuan Refining Company Berhad (HRC) has been serving Malaysia with integrity and reliability since 1963. To us, success is creating long-term value for our stakeholders, and that means to perform well in managing the integrity of our people, assets, governance and with the surrounding environment and community. We intend to build on HRC's solid legacy with continuous investments in expertise, capabilities and capacity to meet the ever-changing needs of a constantly evolving marketplace.



ABOUT THIS REPORT

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

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

The scope of our reporting covers the financial year from 1 January to 31 December 2019 and encompasses all

material developments concerning HRC up until the approval of the annual financial statements.

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

Our financial statements have been audited by Messrs PricewaterhouseCoopers PLT, whose unmodified report is available on pages 79 to 83.

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



WE APPRECIATE YOUR FEEDBACK

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



LINK TO OUR ONLINE REPORTS

The Online version of Hengyuan Refining Company Berhad's 2019 Annual Report and 2019 Sustainability Report are available on our website. Please visit www.hrc.com.my or scan the QR Code to download these reports.

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AT A GLANCE

Revenue



RM **12.6**
billion

Profit
After Tax



RM **35.0**
million

over



10.1 million
man hours without
Lost Time Injury
as at 31 December 2019

Winner of the



**National Council
of Occupational Safety
& Health (NCOSH)
Award 2019**

in the category of Major Industries –
Petroleum / Gas / Chemicals.

**FIRST
Operating
Refinery**




in Malaysia to comply with
**Environmental Quality
(Clean Air)
Regulations 2014**

Please refer to the Sustainability Report 2019 for more details.

Zero 
work-related
 fatality record for over
26 years

FIRST 
Operating
Refinery in Malaysia to achieve
ISO 37001: 2016
 Anti-Bribery Management Systems

TOTAL 
Waste Generated
 reduced by
1.43%
 from 2018

EII energy 
 efficiency index
 improved to
110.9
 in 2019

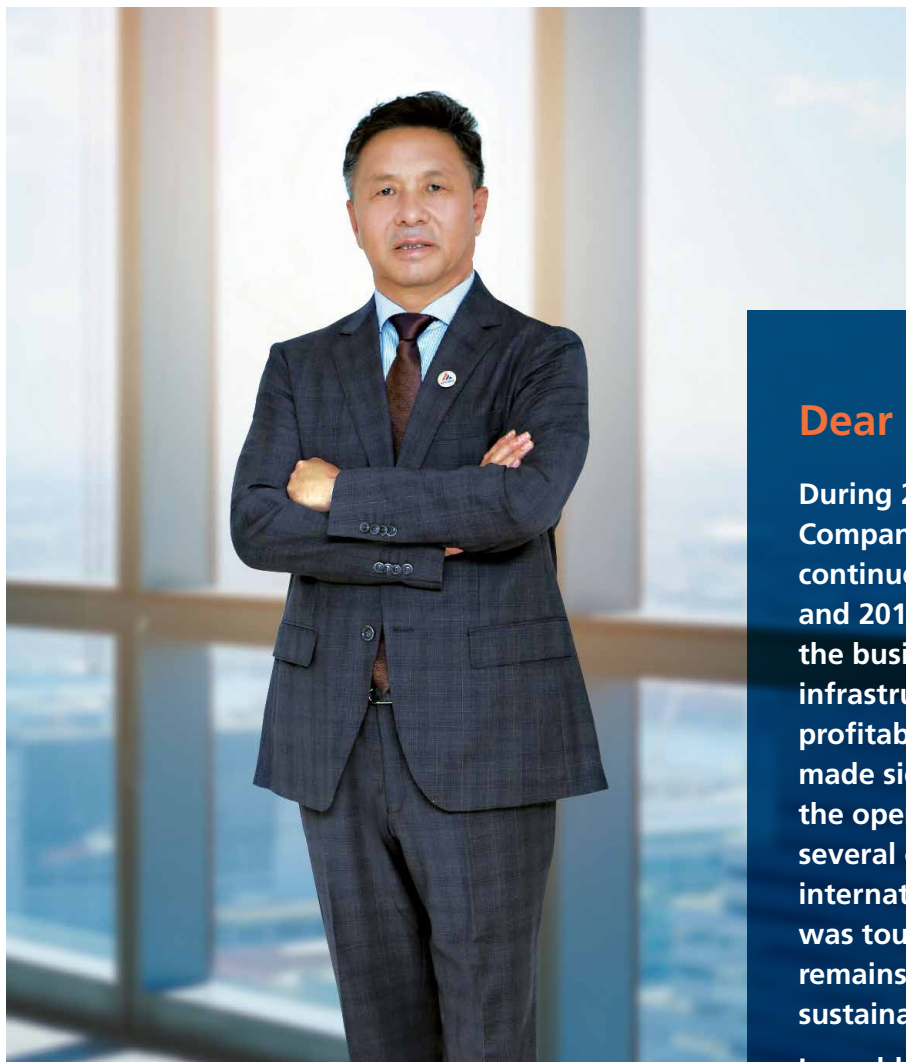
Total sales 
 volume in **2019**
 increased by
19.4%

Near Miss 
Potential Incident
report submission
 increased by
31%
 in 2019

CERTIFICATION

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

CHAIRMAN'S STATEMENT



WANG, YOUDE

Chairman

Dear Shareholders,

During 2019, Hengyuan Refining Company Berhad (HRC or Company) continued the path set in 2017 and 2018, focusing on solidifying the business and putting the infrastructure in place for a long-term profitable future. All major projects made significant progress and the operating refinery achieved several operating records. The international refining environment was tough, but the Company remains competitive and focused on sustainable performance.

I would like to share some of HRC's notable achievements during 2019.

KEEPING STRONG

During 2019, the excellent safety performance continued and we passed 10 million hours without a Lost Time Injury in early December. This milestone is rarely reached within the oil and gas industry and the Company is rightly proud of this achievement.

The Company's investment of USD400 million in capex for sustainable development in major projects planned for execution from 2017 to 2020 is indicative of our commitment towards fully realising the Company's potential and growing the Company long-term at its current premises in Port Dickson.

HRC recorded an extremely good reliability performance with its Long Residue Catalytic Cracker Unit (LRCCU) during the year achieving an all-time record seven-month run without stoppage. Unfortunately, the full year performance was severely impacted by a failure of the Underwater Pipe Line End Manifold (PLEM) during October. However, the significant improvement in the underlying trend helped the refinery to an overall 3.7 per cent unplanned downtime.

Nonetheless, the tough external environment continued for oil refining regionally and globally. International markets were hit by a combination of volatile product prices, weak demand and oversupply of products and elevated freight rates in the latter half of the year. In our region, new refining capacity came on-stream in Malaysia, increasing the flow of products into well supplied markets. The result was depressed refining margins with January and June being the lowest margin months for the year.

Notwithstanding the challenges faced, I am pleased to report that HRC had leveraged its strategic location and its strengths in reliability and hedging to deliver a fair result.

▶ *Details of the 2019 Market Environment can be found on page 30 of the Management Discussion & Analysis.*

BUILDING COLLABORATIVE PARTNERSHIPS

In the process of enhancing our operations, it has been heartening to note that HRC has built win-win collaborations during the year. HRC continues to gain technical guidance and support in various areas from Shandong Hengyuan Petrochemical Company Limited (SHPC) through official trips to SHPC in China to share and exchange knowledge, expertise and culture. Various experts from SHPC have also supported the site from time to time.

Closer to home, HRC has strengthened the relationship with our neighbouring refinery with mutual operational, safety and environmental benefits.

We have also signed a Mutual Aid agreement for reciprocal emergency response support. We regard this collaboration as a positive step towards enhanced sustainability in serving the greater good of the Port Dickson community.

INTEGRITY IN OUR PROCESSES

Creating relationships of trust and transparency with all our stakeholders has always been a defining characteristic of HRC. Continuous focus is given to ensure business integrity and social responsibility through adherence to our General Business Principles. We aim to be a high performing organisation that is anchored on results, merit and exemplary integrity in our relationships with our stakeholders. This is HRC's defining character.

▶ *Details on our General Business Principles are disclosed on page 10.*

“ *The Board and I applaud the good work by HRC in receiving the certification for ISO 37001: 2016 for Anti-Bribery Management Systems in 2019. HRC is the first company in Negeri Sembilan; first oil and gas and chemical plant in Malaysia; and one of the first 25 organisations in Malaysia to achieve the ISO 37001 milestone.* ”



HRC Crude Distillation Unit 1.

The HRC Control Framework was also fully embedded during 2019. This gives a clear structure for the various controls and lines of defense for auditing and approval authorities. Internal and external audit programmes plans for the year were all completed and the closure of agreed action items from previous audits were monitored on time.

▶ *Details on the Control Framework can be found on page 63.*

Given the nature of our business and the impact it has on the environment, HRC holds itself to a high standard of disclosure. Communication with stakeholders continued to be one of the priorities during the year, and we provided timely business updates to relevant government agencies, enforcement bodies and communities and to Bursa Malaysia Securities Berhad. Beyond this, regular community engagement activities were organised in which HRC contributed directly and indirectly to the general well-being of surrounding communities.

▶ *Further details on stakeholder engagements are disclosed on page 26.*

CHAIRMAN'S STATEMENT

Highlights



10.1 million hours
without a
Lost Time Injury



Investment of **USD400 million**
in CAPEX for projects planned
for execution from **2017 to 2020**



96.3%
operational availability

OUR PEOPLE, OUR ASSETS

One of HRC's key strengths is the Company's loyal and capable employees. We are proud to have a workforce that includes different generations of the same family and many long-serving individuals even up to 40 years. The capabilities and work conduct of HRC employees and the investments the Company has made in cultivating their skills are a source of much pride. Unfortunately, this has also made us a target for foreign and international oil refiners who have actively tried to recruit our employees during the year, with some success. Coinciding with the tough market environment, this has made for a challenging phase and employee morale has dipped at times during the year.

As a result, HRC put in place a employees retention scheme, reviewed the salary structure and focused on various team and group initiatives which are described further in the Management Discussion & Analysis (MD&A) section. An Employee Engagement Survey was launched during the year to gain further insights and information on how we can enhance our employee value proposition and create higher morale as well as increased loyalty and pride among key personnel. More emphasis on corporate branding and talent retention programs will pave the way forward for HRC in the coming years. The new Purpose, Vision and Mission put in place is part of the journey towards a more purposeful future with the Company.

Five shared values were also introduced in 2019 to shape employee behaviours towards a more dynamic corporate culture. These are Integrity, Collaboration, Accountability, Respect and Entrepreneurial.

 Details on the Shared Values are disclosed on page 22.

2019 DIVIDENDS

The Board reviews the many different considerations on current and future financial positioning at each board meeting and makes a dividend recommendation considering the long-term interests of shareholders.



HRC Harl Raya Staff Gathering 2019.

The Board's view is to maintain a conservative set of assumptions in cashflow and forecasting and other reviews. Hence no dividends were declared for the year ended 31 December 2019.

MOVING AHEAD

Building on our achievements in 2019, HRC's main focus for 2020 will continue to be on Rejuvenation and Streamlining. Namely, to improve and enhance current operations and business processes; to further develop our people; and to continue to comply with the government regulatory requirements for oil specification. This will enable HRC to cement its strengths and stay agile and responsive to available opportunities.

This has shown to be more important now than ever given the unprecedented challenges posed by the 2020 Covid-19 pandemic and the oil price slump, among others. As the world and Malaysia evolves with conditions that are constantly changing, we too have to adapt and think about how we can do things better to ensure that we continue to deliver sustainable value to our shareholders.

By further improving our reliability and operational excellence, HRC aims to leverage on the increased volume of saleable products. At the same time, streamlining initiatives such as improvements in information technology and focused cost reductions will enable productivity gains and help widen margins.

Given that the challenging market environment is expected to continue, more quick-win initiatives such as forex and hydrocarbon hedging, engaging new customers and operational collaborations with our neighbouring refinery will also be pursued to improve profitability. Shareholders may be aware that from 1 January 2020, international shipping fuel sulphur levels will reduce. HRC has been preparing for this since 2017 and will reap gains from hedging and sales.

In addition to continued asset rejuvenation, the completion of major projects and mitigation of delays will be another key focus for the year.

At the same time, HRC is mindful of where the future leads. Market forecasts show that demand for petrol and diesel could decrease substantially in the decades ahead. The future holds opportunities beyond oil refining in new energy and alternative energy businesses such as Liquefied Natural Gas (LNG) and diversification into petrochemicals. Further afield would be the conscious development of the HRC brand as a pioneer of sustainable solutions in energy and petrochemicals.

Although this is a long-term journey for the Company over the next two decades, in building this brand in these early stages, HRC can initiate meaningful community activities and deepen engagement and relationships with local stakeholders in areas where we can make an immediate positive impact. The progress made in meeting Environmental Quality (Clean Air) Regulations 2014 requirements within the timeline is significant in this front.

To hold true to its refreshed Purpose, the HRC team is required to be poised and ever ready in closing gaps in talents, skills and productivity. I, along with the Board of Directors (Board), do believe that with their inspiring integrity, loyalty and passion this is a journey we will complete together.

“ *The Board and I are confident that the clearly defined short, medium and long-term goals and our action plans provide HRC a sustainable roadmap within which to prosper. We will further grow our refining business in Port Dickson while progressing towards our long-term vision to be a leading global energy and petrochemical company, pioneering sustainable solutions.* ”

THE SHAPE OF THE FUTURE

Building on HRC's strengths and its position within the Hengyuan Group, a meaningful and aspirational Purpose has emerged: *To Power Human Connections*. Energised, inspired, and guided by its Purpose of how HRC can help make the world a better place, the management and employees of HRC refreshed the HRC Vision to one where the company aspires *to be a leading global energy and petrochemical company, pioneering sustainable solutions*.

▶ *Details of HRC's Purpose, Vision, Mission and Values can be found on page 22.*

HRC's Mission statement: *To safeguard operational integrity, to be bold in our innovations, to leverage on the strength of our people and to maximise stakeholder value*, will guide the Company forward in realising its audacious goals. Our action plans will continue to be anchored on HRC's six strategic pillars of People First; Staying Safe & Reliable; Being \$ Smart; Building a Sustainable Future; Rising Together; and Focusing on Growth.

▶ *Details of HRC's 2019 Business Priorities can be found on page 10.*

ACKNOWLEDGEMENTS

On behalf of the Board, I take this opportunity to thank Mr David Ronald Keat, our hardworking Chief Executive Officer who had completed his contract on 29 February 2020. His dedicated service and contributions have made an indelible impact to HRC. We wish him well in his future endeavours.

Taking his place as Chief Executive Officer is Mr Erkki Tapio Ranta, who took up his current duties and responsibilities on 1 March 2020. Mr Ranta brings with him vast experience in the oil and gas industry and has held a variety of engineering, executive roles and directorships for over 29 years. We extend him a warm welcome and look forward to his dynamic leadership.

Last but not least, I would like to thank our supportive shareholders and stakeholders for their commitment and trust in the long-term sustainability of HRC. An exciting era of growth awaits us all as we begin to make strides in powering human connections.

Wang, YouDe
Chairman

OUR STRENGTHS

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



OUR HERITAGE

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



OUR ANCHOR

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



OUR PEOPLE

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



OUR COMMITMENT

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

Investing to be future-ready, we have also initiated projects required to meet specifications mandated by the Malaysian governing authorities and which are integral not only to HRC's contribution towards nation building, but will also enable dynamic and sustainable growth through to 2020 and beyond.

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

BOARD WHISTLEBLOWING COMMITTEE

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

SECRETARIES

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

Ong Wai Leng

(SSM PC No 202008003219 /
MAICSA No 7065544)

AUDITORS

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

SHARE REGISTRAR

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

AGM HELP DESK

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

STOCK EXCHANGE LISTING

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

REGISTERED OFFICE

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

BUSINESS ADDRESS

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

GENERAL BUSINESS PRINCIPLES

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.



QUALITY, HEALTH, SAFETY, SECURITY & ENVIRONMENT

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



ECONOMIC

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

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



COMPETITION

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



COMMUNICATION AND ENGAGEMENT

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



COMPLIANCE

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



LOCAL COMMUNITIES

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

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



POLITICAL ACTIVITIES

A. Of company

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

B. Of employees

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



HRC Business Integrity Week 2019.



HRC Business Integrity Week 2019.



HRC 60th Annual General Meeting 2019.

NOTICE OF 61ST ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty-First Annual General Meeting of Hengyuan Refining Company Berhad (the Company) will be held entirely through live streaming from the broadcast venue at **Tricor Leadership Room, Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur (Broadcast Venue) on Tuesday, 23 June 2020 at 10.00 a.m.** to transact the following businesses:

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2019 and the Reports of the Directors and Auditors thereon.

[Please refer to Note (a)]

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

i) Puan Fauziah Hisham

(Ordinary Resolution 1)

ii) Mr Wang, ZongQuan

(Ordinary Resolution 2)

3. 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 3)

4. To approve payment of Non-Executive Directors' fees and benefits of up to RM2,300,000.00 for the period from 1 June 2020 until 30 May 2021.

(Ordinary Resolution 4)

[Please refer to Note (b)]

SPECIAL BUSINESS

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

5. **AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016**

(Ordinary Resolution 5)

"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 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)]

6. 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 6)

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

(Proposed Share Buy-Back).

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

- a. the conclusion of the next AGM of the Company following at which time the authority shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions;
- b. the expiration of the period within which the next AGM 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, orders, guidelines and requirements issued by any relevant authorities.

NOTICE OF 61ST 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 and / or its subsidiaries;
- vi. To transfer all or part of the treasury shares as purchase consideration;
- vii. To sell, transfer or otherwise use the shares for such other purposes as the Minister may by order prescribe; and / or
- viii. To deal with the treasury shares in the manners as allowed by the Act, Listing Requirements, applicable laws, rules, regulations, guidelines, requirements and / or orders of any relevant authorities for the time being in force.

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

[Please refer to Note (d)]

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

"**THAT** subject to the Listing Requirements, approval be and is hereby given for the Company to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.2.2 of the Circular to the Shareholders dated 22 May 2020 which are necessary for day-to-day operations and are carried out in the ordinary course of business on terms which are not more favourable to the related parties than those generally available to the public and are undertaken on an arms' length basis and not to the detriment of minority shareholders;

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

- (a) the conclusion of the next AGM of the Company at which this shareholders' mandate will lapse, unless by a resolution passed at the next AGM, the mandate is renewed;
- (b) the expiration of the period within which the next AGM is required to be held pursuant to Section 340 of the Act; or
- (c) revoked or varied by resolution passed by the shareholders in 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."

8. **PROPOSED AMENDMENT OF THE CONSTITUTION OF THE COMPANY** (Special Resolution 1)

"**THAT** the approval be and hereby given to the existing Constitution of the Company be amended by revising the heading of Article 54 of the Constitution with immediate effect as set out in Part C of the Circular to the Shareholders dated 22 May 2020 **AND THAT** the Directors of the Company be and 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 effect to the foregoing."

[Please refer to Note (e)]

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

BY ORDER OF THE BOARD

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

Dated this 22 May 2020
Kuala Lumpur

NOTICE OF 61ST ANNUAL GENERAL MEETING

NOTES:-

1. IMPORTANT NOTICE

The Broadcast Venue is **strictly for the purpose of complying with Section 327(2) of the Companies Act 2016** which requires the Chairperson of the meeting to be present at the main venue of the meeting.

Shareholders **WILL NOT BE ALLOWED** to attend the 61st AGM in person at the Broadcast Venue on the day of the meeting.

Shareholders are to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, participate) remotely at the 61st AGM via the Remote Participation and Voting facilities (RPV) provided by Tricor Investor & Issuing House Services Sdn Bhd via its **TIIH Online website** at <https://tiih.online>.

Please refer to the "Procedures for RPV" in the Administrative Guide for the Company's 61st AGM and take note of Notes (2) to (13) below in order to participate remotely via RPV.

2. For the purpose of determining who shall be entitled to participate in this AGM via RPV, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company, the **Record of Depositors as at 15 June 2020**. Only a member whose name appears on this Record of Depositors shall be entitled to participate in this AGM via RPV.
3. A member who is entitled to participate in this AGM via RPV is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his / her place. A proxy may but need not be a member of the Company.
4. A member of the Company who is entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate instead of the member at the AGM via RPV. A member may appoint more than one proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy.
5. 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.
6. 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.
7. A proxy need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.
8. 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.

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

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

Members or proxies who have registered as a RPV user **must register to attend and participate at the AGM via RPV (AGM Registration). AGM Registration is open from 10.00 a.m. Friday, 22 May 2020 up to 10.00 a.m. Sunday, 21 June 2020.** Please follow the steps contained in the "Procedures for RPV" section of the Administrative Guide for the Company's 61st AGM.

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

(i) In hard copy form

In the case of an appointment made in hard copy form, the proxy form must be deposited at the office of the share registrar of the Company, Tricor Investor & Issuing House Services Sdn Bhd, at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or at its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

(ii) Online (available for individual shareholders only)

In the case of an appointment made via online lodgement facility, please access the website at <https://tiih.online> and select "e-Services" to login. Please refer to the Administrative Guide for the Company's 61st AGM on how to register at TIIH Online and submit your proxy form electronically.

The last date and time for lodging the proxy form is **Sunday, 21 June 2020 at 10.00 a.m.**, which is also the date and time for the closing of the AGM Registration. As such, we recommend that the appointment of proxy be done as early as possible so that the appointed proxy has sufficient time to complete the AGM Registration.

12. Any authority pursuant to which such an appointment is made by a power of attorney must be deposited with the share registrar in accordance with Note 11(i) above **not less than forty-eight (48) hours before the time appointed for holding the AGM or adjourned general meeting** at which the person named in the appointment proposes to vote. A copy of the power of attorney may be accepted provided that it is certified notarially and / or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

13. For a corporate member who has appointed a representative, please deposit the ORIGINAL certificate of appointment with the share registrar in accordance with Note 11(i) above. The certificate of appointment should be executed in the following manner:

- (i) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.
- (ii) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:
 - (a) at least two (2) authorised officers, of whom one shall be a director; or
 - (b) any director and / or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

14. The Date of Record of Depositors for the purpose of determining members' entitlement to participate at the 61st AGM via RPV is 15 June 2020.

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 4

This resolution is to facilitate payment of Non-Executive Directors' fees and benefits for the period from 1 June 2020 to 30 May 2021.

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

Directors' benefits include meeting allowances and other emoluments payable to Directors and in determining the estimated total the Board had considered various factors including the number of scheduled meetings for the Board and Board Committees and covers the period from 1 June 2020 to 30 May 2021.

c. Ordinary Resolution No 5

The proposed Resolution No 5 is to provide flexibility to the Company to issue new securities without the need to convene separate general meeting to obtain its shareholders' approval so as to avoid incurring additional 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 6

The proposed Resolution No 6, if passed, will empower the Directors to purchase, on behalf of the Company, up to 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 22 May 2020 accompanying the Company's Annual Report for the financial year ended 31 December 2019.

e. Special Resolution No 1

The proposed Special Resolution No 1 is tabled to revise the heading of Article 54 of the Constitution to ensure clarity of the Company's Constitution.

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 AGM.

We aim to be a high performing organisation with integrity as one of our defining and distinctive values.

In all we do, we are guided by our General Business Principles.

Business transactions are based on honesty, integrity and fairness; and we expect the same level of integrity from those with whom we do business.

We also safeguard asset integrity and make no compromises in delivering quality services and products.



FIRST oil and gas and chemical plant in Malaysia to be certified with **ISO 37001: 2016** Anti-Bribery Management Systems



Achieved **ISO / IEC 27001: 2013** Information Security Management Systems

INTEGRITY

in people, governance
and systems



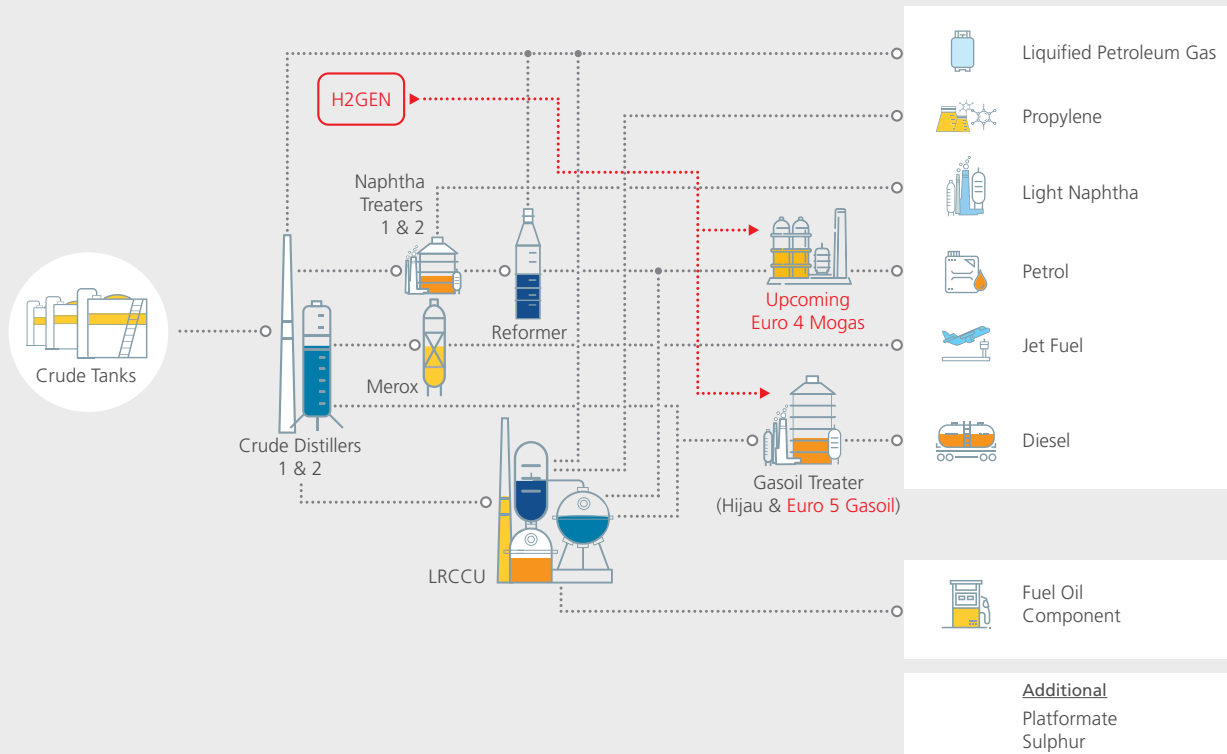
BUSINESS OVERVIEW

Set up in 1960 and operational since 1963, Hengyuan Refining Company Berhad (HRC or the Company) operates as one of the most established and reliable refiners in Malaysia. Our oil refinery in Port Dickson, Negeri Sembilan has played an integral role in the nation's oil and gas industry. Every day, we process crude oil from Malaysia and all over the world to deliver up to 156,000 barrels of petroleum products to customers in Malaysia and within Southeast Asia.

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

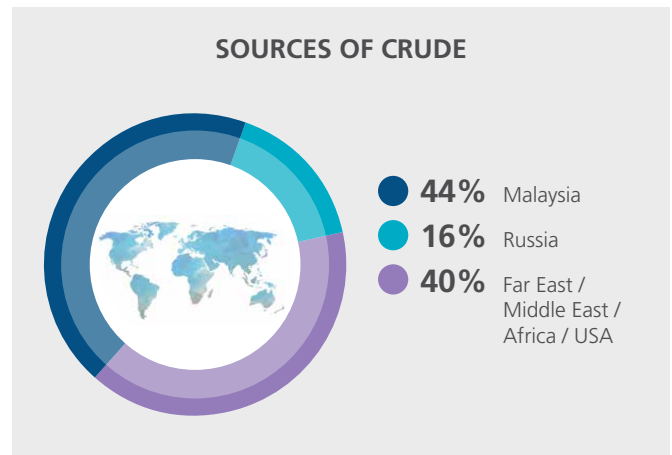
Our plant is a complex refinery. The main operating units comprise two crude distillers, a long residue catalytic cracker unit (LRCCU), two naphtha treaters and a Merox plant, one reformer and a gasoil treatment plant. These assets are well maintained with a strong focus on asset integrity and reliability.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

AN OVERVIEW OF HRC'S REFINERY



Our crude oil supply is sourced from Malaysian and international trade partners based on commercial viability and competitive pricing. We continue to focus on building more relationships with the crude supply network locally, regionally and globally to benefit from competitive pricing. To complement these diversification efforts, HRC has also implemented intricate hedging arrangements to protect refining margins against volatility and mitigate the impacts of sudden crude price escalations.

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



Hijau Unit - A diesel hydrodesulphurisation unit.

OUR STRATEGIC COMPASS

The main focus of HRC's activities since 2016 have been to build and strengthen the Company's refining capability for long-term sustainability. However, we are also conscious of the changing world around us and the need to evolve and adapt in the long term.

In 2019, HRC engaged in a company-wide identification of our Purpose and a redefinition of our Vision, Mission and Values in response to the energy sector future changes and to guide us towards making meaningful progress in the long-term direction of growth for the Company.

This has resulted in greater clarity and synergy as HRC heads for the next frontier of growth in 2020 and beyond, towards becoming a global energy solutions company.

What Guides Us: OUR PURPOSE

WE POWER HUMAN CONNECTIONS

People are at the heart of what we do. We connect and bring people together through connections, solutions and conveniences that our products create, such as fuel for reaching destinations, and LPG that cooks daily meals and food for celebratory occasions. Being conscious of this bigger and more meaningful purpose drives us to create greater value in the many things that we do every day.

As a long-standing and valued part of Port Dickson's social and community fabric, we power connections by giving back to the community where we can. We work very hard on being a responsible corporate citizen, staying mindful of maintaining a minimal environmental footprint while making a positive contribution to the local community, state and national economies through employment, taxes and as enablers to other industries. We employ local employees and vendors wherever possible and nurture a conducive workplace which has been successful in attracting two and even three generations of families as employees. We maintain high ethical and governance standards for ourselves to build relationships of trust with our stakeholders, and our corporate social responsibility programmes directs social investments to help the Port Dickson community.

What We Aspire To: OUR VISION

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

We have redefined our Vision towards a new frontier of growth. The future outlook for oil and gas is a long-term decline in petrol consumption and a general trend away from hydrocarbon transport fuels. However, the future market for petrochemicals and low carbon gas for power generation is very positive. This scenario may pose a major challenge for a traditional oil refiner, but it also creates significant new opportunities in petrochemicals, new energy and potential alternative energy businesses such as liquefied natural gas (LNG). To be able to leverage on these opportunities, change must come now and therefore HRC has redefined our vision to embrace industry leadership, an international footprint, a pioneering and entrepreneurial spirit and a focus on sustainable solutions.

What Drives Us: OUR MISSION

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

Our mission statement has been compacted to reflect the pivotal game changers that will move HRC from a local refinery to a dynamic global energy solutions company over the next 20 to 30 years. For the next few years we need to make the best of our existing resources to close identified gaps between what we have at hand, and what we require to achieve our mission. These action plans will continue to be anchored on HRC's six strategic pillars of People First, Safe & Reliable, \$ Smart, Sustainable Future, Rise Together and Growth.

What Defines Us: OUR VALUES



VALUES

INTEGRITY

COLLABORATION

ACCOUNTABILITY

RESPECT

ENTREPRENEURIAL

The core drivers towards meeting our Vision are encapsulated in the behaviour and attitude of every HRC employee. As the heartbeat of the Company, the values and principles we abide by create the distinctive culture of HRC which sets us apart from other companies. Applying these five selected values becomes the decision making filter in every action taken by a HRC employee and cultivates a culture of competitive innovation against an all-encompassing commitment to build positive stakeholder outcomes.

“ The products we produce are part of the value chain that brings and keeps people together daily. Petrol and diesel fuelled vehicles help bridge the distance between families, friends and businesses and the jet fuel we produce enables air travel. LPG used for cooking in kitchens creates enjoyable mealtimes. We also produce precursors to the plastics used in daily life conveniences such as in your smartphone, your clothes and many other products that are an everyday necessity for living life comfortably and enjoyably. ”



BUSINESS STRATEGY

We adhere to six strategic pillars 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.



STAYING SAFE & RELIABLE Strategic Priority 1

Safe and reliable operations are the cornerstones 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 Quality, Health, Safety, Security and Environment (QHSE) standards, policies and practices.

Process and personal safety are 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 sessions, which enable us to strengthen the awareness of our people on safety and learn from past experiences both internally and internationally. This strategic priority ensures we can safeguard asset integrity and deliver continuous and sustainable QHSE excellence.



PUTTING PEOPLE FIRST Strategic Priority 2

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



BUILDING A SUSTAINABLE FUTURE Strategic Priority 3

HRC knows that long-term success means creating long-term value for our stakeholders, and that means to do 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 QHSE standards, operational excellence, improved reliability practices and talent management, while safeguarding the environment within which we operate.

We undertake projects and initiatives that allow us to continue operating in compliance with regulatory requirements. These include our recently completed and on-going CAR, Euro 4M and Euro 5G projects.

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 that are the basis of our resilience.



RISING TOGETHER Strategic Priority 4

We recognise that our success is not just about us but extends to our stakeholders just as well. We work closely with government and regulatory agencies, communities, customers and suppliers, and continuously engage them in forging new advancements, producing cleaner fuels, and supporting collective growth. We work closely with our neighbouring refinery where possible for mutual commercial benefit.



BEING \$ SMART
Strategic Priority 5

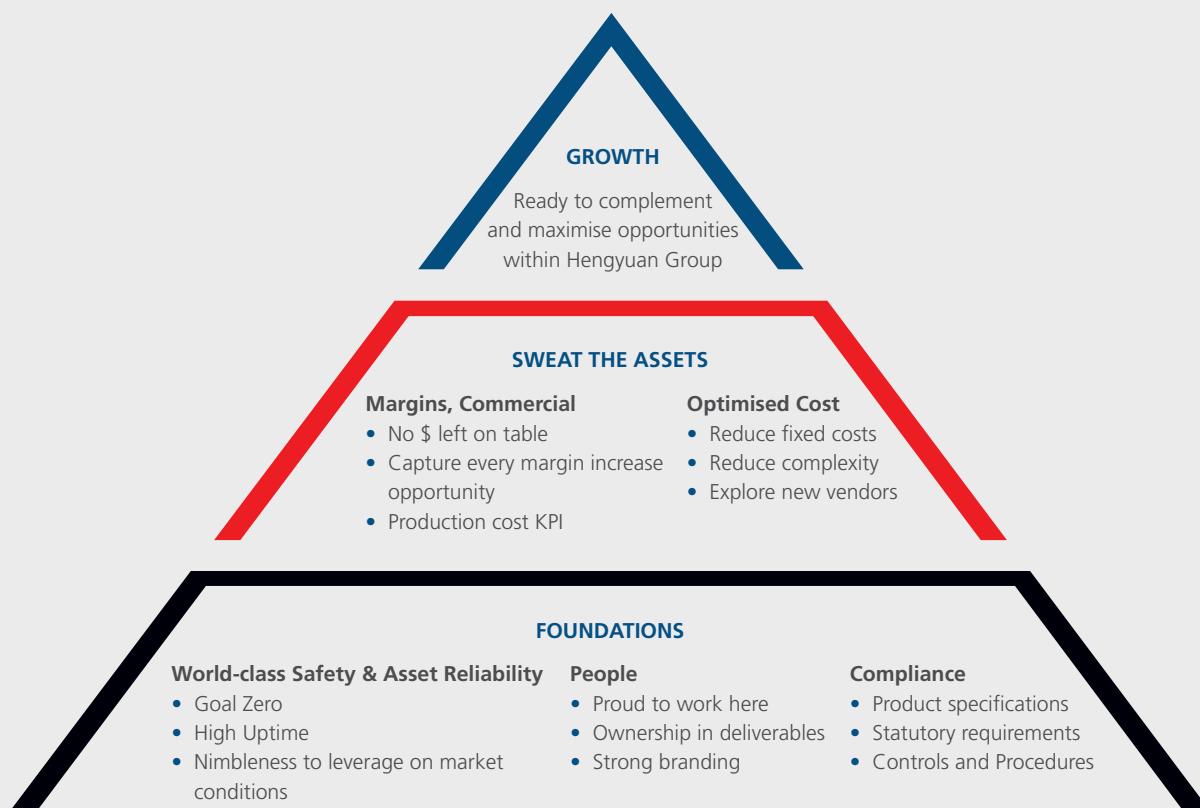
A cost-conscious mindset helps us manage our financial sustainability. We not only reduced exposure to foreign exchange and hydrocarbon risks, but also achieved further margin protection through disciplined execution of hydrocarbon hedging policies in 2019. In addition, we renegotiated significant service and materials contracts at market competitive prices, leveraging on longer-term volume and cost modelling for cost optimisation. This strategic priority enables the Company to maximise refinery margins and deliver on-going structural cost reductions.



FOCUSING ON GROWTH
Strategic Priority 6

As an independent refiner, we aspire to make our mark in the international market by generating improved margins through more optimised and efficient operations. As part of our business improvement process (BIP), continual diversification of our crude oil supply and customer base is necessary to build resilience while expanding our product portfolio will enable us to meet customers' requirements. The focus on reliability, as well as investments to rejuvenate our plant assets, will enable an increase in the volume of products available for sale and ensure sustainable operations for the longer-term. Other potential opportunities for growth include product trading and leveraging on alliances with other industry players.

SETTING THE FOUNDATION FOR LONGER-TERM GROWTH






HRC positions itself as a reliable supplier of choice with commercial strategies and a competitive, sustainable cost base. Our short-term focus is to continuously strengthen and keep our foundations rock solid, as we improve and enhance on current operations, processes and people, and sweat the assets. This enables HRC to be ready to exploit any opportunities available and complement growth within the Hengyuan Group.






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.

Maintaining responsive channels with our stakeholders is key to our sustainability strategy. We communicate and collaborate with our stakeholders regularly through various arrangements to better identify and assess material sustainability issues.

This process also enables the Company to prioritise strategic decisions and the direction of the business to manage the reasonable expectations and interests of our stakeholders.

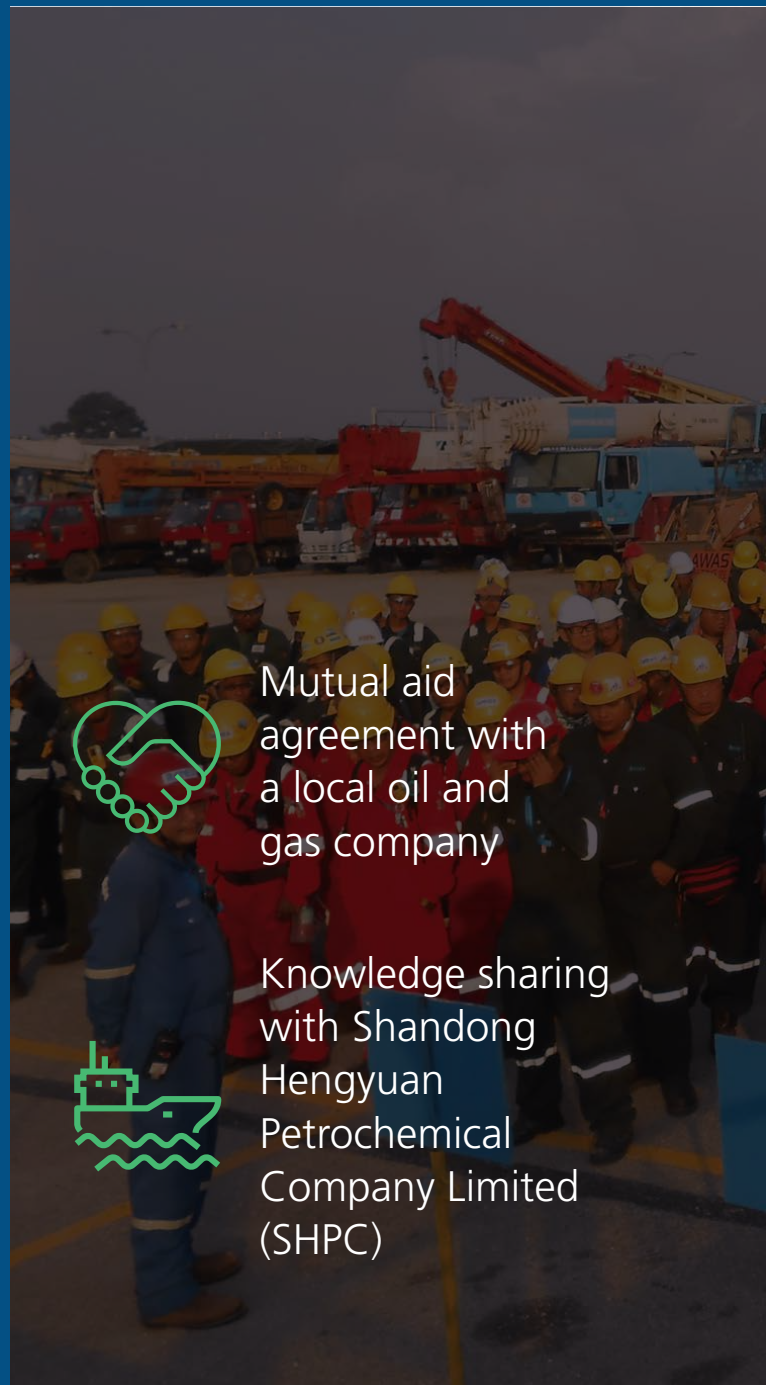
Stakeholders	Engagement Channel	Frequency	Purpose
 Employees	<ul style="list-style-type: none"> • Town Halls • Employee Information • Intranet • Development Discussions • Events and Campaigns • Training • Team Meetings • Informal Meetings 	<ul style="list-style-type: none"> Quarterly On-going On-going Annually On-going 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

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

We recognise the need for teamwork with internal and external stakeholders and partners. Collaboration opens up new windows of opportunity.

HRC creates results by engaging in effective partnerships throughout our product supply chain.

Through joint operational excellence, we are harnessing win-win synergies for commercial benefit, sharing of emergency response resources and improved operational efficiency.



Mutual aid agreement with a local oil and gas company



Knowledge sharing with Shandong Hengyuan Petrochemical Company Limited (SHPC)

COLLABORATION

towards effective
partnerships



MARKET CHALLENGES

Oil refiners continued to experience a volatile year in 2019¹. Global economic and geopolitical impacts created a tough external environment which caused oil demand to grow more slowly than anticipated as some of the top oil consumers faced economic slowdown due to economic reforms and trade embroilments with the US.

Year on year oil demand growth was below expectations because of economic uncertainties. There was a barely perceptible increase from 99.31 million barrels a day (mb / d) in the first quarter (Q1) of 2018 to 99.82 mb / d in Q1 2019. Crude prices averaged lower to USD64.3 per barrel (/ bbl) in 2019 compared to USD71.04 / bbl in 2018.

Volatile product prices, an oversupply of products and elevated freight rates in the latter half of the year also impacted global refining margins. In addition, new refining capacity came on-stream in Malaysia, increasing the flow of products into well supplied markets. The result for HRC was depressed refining margins that dropped to the lowest in more than six years in January and June 2019.

There is little reprieve from volatility and uncertainty. Over the past decade, we have seen the heights of bullish optimism and seemingly limitless investment during the years of the USD100 / bbl world, from 2011 to mid-2014, and the lows of the price crash and extended oil downturn, from mid-2014 to 2017. Moving ahead, wider macroeconomic and business environmental risks which seem to be gaining strength are:

- Weakening economic growth in the United States (US), Europe and China
- On-going trade tensions, which create uncertainty, dampen growth, and lead to modifications in long-established supply chains
- Political risks, including the US election cycle, the outcome of the Brexit process in Europe, and US-Iran tensions in the Middle East
- Local oversupply of products from new refineries in Malaysia and Southeast Asia
- Global and domestic economic uncertainties as a result of the Novel Coronavirus (Covid-19) pandemic

Vigilance is required to keep moving forward in 2020. Though the current standoff between the US and Iran is expected to lead to a more stable outlook for the oil and gas industry, any further escalation of the crisis will potentially result in temporary disruption in oil supply and rise in oil price.

Further ahead, commitments to stop climate change introduced more uncertainty into future oil demand. In its research outlook, Barclays² predicted that oil demand could peak by 2025 and fall 30 per cent by 2050 if countries keep to their Paris Climate Accord commitments.

2020 OIL AND GAS SECTOR TRENDS

- Trade and economic headwinds are causing uncertainty for transport fuel markets
- Increasing security and decreasing demand of global oil supply
- LNG volumes are up, but sanctioning new projects will be hard
- Oil and gas investors are expecting increased efficiencies despite slowdown
- The energy transition is gaining momentum in the oil and gas sector

The way forward is to balance short and long-term needs by staying alert to the many risks and uncertainties clouding the outlook for 2020 while standing ready to embrace new opportunities for profitable growth in a rapidly evolving market landscape. HRC is cementing capability to supply current markets while looking at commercial opportunities and partnerships wherever possible.

As we carefully build capabilities for the future around new energy solutions, financial discipline and prudent investment strategies should help stabilise and sustain performance in the near term.

Sources:

¹ Information sourced from MIDF Research 2019 Report, Deloitte Oil and Gas Industry Outlook 2020 and EIA Annual Energy Outlook 2020.

² Barclays Investment Bank: Oil in 3D: insights and research report.

2019 PERFORMANCE REVIEW

When Malaysia Hengyuan International Limited (MHIL) took controlling ownership of the refinery three years ago in December 2016, there were two urgent requirements. The first was to ensure the refinery can produce petrol and diesel meeting future Malaysian fuel specifications. Next, was to revitalise the refinery major assets and equipment, given their age and maintenance history.

Having addressed critical business continuity issues through the scheduled 2018 Major Turnaround and injected capital into upgrading assets and capabilities, in 2019 the Company could turn to optimising performance through Rejuvenation (focus areas that require continual strengthening and enhancement) and working on streamlining initiatives to increase efficiencies and reduce costs; while the Company continued to increase capabilities by executing key investment projects. All of these were covered under our six strategic pillars.

HERE TO STAY. HERE TO GROW

Rejuvenation Focus

- Sustaining Our Safety Culture
- Preserving Process Safety
- Enhancing Operational Reliability
- Ensuring Product Quality
- Ethical Business Culture
- Execution of Key Investment Projects
- Employees Morale and Wellness
- Relationships with the Community

Streamlining Initiatives

- Increasing Commercial Value
- Managing Environmental Footprint
- Information Technology Improvements

OPERATIONAL REVIEW

REJUVENATION PRIORITIES



Sustaining Our Safety Culture

(under Strategic Priority 1)

Quality, Health, Safety, Security and Environment (QHSSE) are critical to our business and operations. To this effect, we always endeavour to guarantee the safety and security of our people (employees and contractors) and the surrounding communities, guided by our Health, Safety, Security, Environment and Social Performance (HSSE & SP) Commitment and Policy as well as our Quality Policy. We continuously improve and develop QHSSE procedures and training programmes.

KEY QHSSE PROCEDURES & PROGRAMMES

- **Safety Campaigns:** Throughout 2019, proactive quarterly safety campaigns and a Safety Day were conducted to motivate the site on safety and address site-wide concerns on QHSSE matters.
- **Walk-about:** The weekly Leadership Team (LT) “Turun Padang” QHSSE walkabout by Leadership Team and Daily Goal Zero Walk serve as a pulse check on the current health of our HSSE standards implementation on site. The walk provides opportunities to identify potential hazards and proactively mitigate them before accidents occur.

- **CREST:** An online portal named CREST has been established as part of our QHSSE digitisation efforts in capturing, consolidating and analysing findings from all types of walkabouts and interventions done across the site. Themes from these findings are then shared in multiple forums to drive improvements on QHSSE.
- **Training programmes:** HRC’s QHSSE team conducted 25 training sessions during the year covering crucial structured training such as Permit To Work Level 1 & 2; as well as other specific qualifications training such as First Aid and Confined Space competency training courses.
- **Rejuvenating assets:** HRC has stepped ahead with a phased project to rejuvenate the Company’s firefighting system after facility weaknesses were identified with the help of a fire expert consultant.
- **Emergency Preparedness and Response training:** A series of training and drills were executed during the year to ensure the preparedness of the Emergency Management Team. In April 2019, a large scale three-day Tier-3 emergency response event named Exercise “Merbok VII” was held by the Company in collaboration with the Port Dickson District Office, and with joint participation of 10 agencies from across Malaysia. More than 400 people participated in this successful event.

2019 PERFORMANCE REVIEW

HIGHLIGHTS:

Safety performance for the year has significantly exceeded expectations, indicating a positive intervention and compliance culture from both employees and contractors. We successfully maintained our zero work-related fatality record for more than 26 years and achieved more than 10 million manhours without a Lost Time Injury by the end of 2019.

Another positive result was the proactive reporting to prevent HSSE incidents, termed 'Near Miss Potential Incident (NMPI) Reporting'. Total NMPIs reported far surpassed the 2019 target, which indicates a sustained positive reporting culture.

During the year, HRC was successful in obtaining a new ISO 37001: 2016 certification for Anti-Bribery Management Systems, emphasising the Company's commitment on upholding integrity. The Company was also successful in the migration of ISO 17025: 2017 Accreditation for Testing and Calibration of Laboratories to the 2017 revision and was able to maintain other certifications through surveillance audits on ISO 9001: 2015 Quality Management Systems, ISO 14001: 2015 Environmental Management Systems, ISO 45001: 2018 Occupational, Health and Safety Management Systems and ISO / IEC 27001: 2013 Information Security Management Systems.

The results of external audits of our QHSSE Management System also reflected the positive strides we have made over the last seven (7) years. All 11 external audits that took place during the year were successful with zero fines. These were audits conducted by Department of Occupational Safety and Health (DOSH) Headquarters and State enforcement officers, third party environmental auditors for Euro 4M / H2GEN site and SIRIM.

For the first time ever, HRC was declared the winner of the National Council of Occupational Safety & Health (NCOSH) Award 2019, a prestigious national award in the category of Major Industries – Petroleum / Gas / Chemicals. In addition to that, the Company was also nominated as one of the finalists in the CEO Award category.

For more details on our Safety programmes, please refer to our QHSSE Management and Performance in our Sustainability Report.



Preserving Process Safety

(under Strategic Priority 1)

Process Safety is the engineering / asset match to personal safety. The science of Process Safety focus is to ensure hydrocarbons stay inside the process units at all times to avoid environmental damage, fires and explosions. Any leak, no matter how small, is classified as a Loss of Primary Containment (LOPC) and is tracked and followed up for learning and elimination.

HRC has international standard systems and processes in place to maintain and improve Process Safety performance. They include Ensuring Safe Production, Operating Window management, structured process safety reviews of plant design against current standards and Management of Change. The asset integrity management and enhancing maintenance execution on corrective inspection requests also support Process Safety. These preventive measures are important to ensure the plant remains safe and operationally sustainable. Improvement opportunities are being tracked systematically for execution on the run if possible, or during plant shutdowns.

KEY PROCESS SAFETY INITIATIVES

- "8 Key Steps" which is a collection of process safety improvement tactics undertaken over the last several years, has been completed and efforts are on-going with the two other components, namely "Keep It In The Pipe" and "Process Safety 9 Fundamentals (PS9F)"
- Completed four (4) process safety reviews which identified opportunities that will reduce site exposure to major process safety risks to as low as reasonably practicable
- Completed the Hazard and Effect Management Process (HEMP) Cycle for 14 out of 22 systems throughout the refinery, as scheduled
- Activated a concentrated focus on reducing the Corrective Action Inspection Request (CAIR) backlog

HIGHLIGHTS:

Three API Tier 2 LOPC incidents were recorded in 2019. Two of these were hydrocarbon leaks and one was a fire which was initiated by sparks from a pump motor bearing failure. All were mitigated in a timely manner by our operations and emergency response teams. Investigations on these incidents have been completed and learnings have been adopted, in particular on the areas of corrosion management, inspection plan and maintenance. It is to be noted that there were no injuries nor significant asset damage as a result of these incidences.



Enhancing Operational Reliability

(under Strategic Priority 1)

HRC's efforts in enhancing our Reliability Management framework and reinforcing the "Reliability Mindset" resulted in substantial improvements in plant reliability in 2019 with HRC reaching world class availability levels during the year.

KEY RELIABILITY INITIATIVES

- Elimination of threats to availability. A significant number of identified threats were mitigated or eliminated through various projects and repair activities
- The master list of single points of failure was reviewed and on-going detailed analysis of selected equipment where outages have very high business impact, by using reliability centred maintenance, risk-based inspection and instrumented protective function studies
- The proactive technical monitoring programme that has been established was expanded and coverage was extended to include key process parameters
- Identifying and eliminating possible causes of future incidents through Proactive Threats Identification and Elimination (PTIE) and Asset Integrity Assessment (AIA)
- Sharing of knowledge and learnings from incidents to prevent future recurrence

HIGHLIGHTS:

- HRC's on-going improvements and focus on defects elimination, led to high reliability performance in 2019. Crude processing was very high with almost no Unplanned Downtime (UPDT) in the first three quarters of the year. Cumulative UPDT at the end of third quarter (Q3) was only 0.4 per cent which is world class.
- The LRCCU set an all-time run record of seven months without outages.
- Unfortunately, an unexpected leak at the PLEM which is the underwater section of the crude oil offloading facilities on 29 September 2019 had reduced crude processing in the fourth quarter (Q4). The Company responded immediately to the matter. However, the repair works were challenging and slow due to the water depth, poor visibility and strong currents. The refinery production was slowed down but product supply to customers continued without any disruption. Crude intake returned to normal operational levels earlier than expected at the end of October 2019. The repair was completed in compliance to the environmental regulatory requirements despite difficult working conditions.

- This resulted in an overall unplanned downtime percentage of 3.7 per cent against a target of 2.0 per cent. Consequently, overall operational availability which includes planned and unplanned downtime was 96.3 per cent, slightly below the business plan target of 96.6 per cent.
- Total crude processing in 2019 was 38.8 million barrels, slightly below the target due to the PLEM incident impacts, but 6.3 million barrels higher than 2018 due to improved refinery operations, uptime and capability after the major turnaround in 2018.



Ensuring Product Quality (PQ)

(under Strategic Priority 1)

Except for a minor supply disruption to our customers for one and a half days, there were no major PQ issues during 2019. The sole PQ incident was promptly investigated, and immediate corrective and precautionary measures were put in place to resolve the issue and avoid any repetition.

KEY PRODUCT QUALITY INITIATIVES

- A PQ health check structure was put in place and has commenced the trial run with good success. This structure will form the basis of the PQ health check framework for 2020 and beyond
- Training with a reputed Oil Major was completed to increase the overall site competency and ensure quality work process
- The refinery petrol blending and storage assets needed to be converted from the high sulphur Euro 2 specification to the Euro 4M specification in Q4 2019 to ensure the whole system was converted by the gazetted date of 1 January 2020
- The assessment of requirements to release 95 octane grade petrol with zero giveaway on octane or vapour pressure using online analysers was completed
- The 95 octane grade blending process was rolled out and is now part of normal operations. As a result, 2019 had the least giveaway on product quality since records began. This provides a considerable economic benefit and also provides flexibility to blend petrol directly to ships rather than batch blending via on shore tankage

2019 PERFORMANCE REVIEW

HIGHLIGHTS:

- A multi-disciplinary team within HRC has commenced planning for the transition to Euro 5 quality diesel by September 2020.
- During the year, HRC was honoured with certification of the new ISO 17025: 2017 Testing and Calibration Laboratories by the Department of Standards Malaysia. This was completed one year ahead of the mandated timeline and we were also successfully recertified with ISO 9001: 2015 Quality Management Systems to ensure the refinery meets the prescribed product quality.



Ethical Business Culture

(under Strategic Priority 6)

HRC has built a legacy of trust and integrity over the years and this is a distinction we intend to maintain long into the future. We are committed to stay and grow by operating responsibly and ethically. Our commitment to conduct our business at the highest level of integrity is highlighted in the policies, procedures and practices adopted throughout our value chain to support our ethical business culture. Additionally, integrity is now a key message in the refreshed Mission and Values of the Company.

In compliance with the legislative requirements in Malaysia, HRC has adequate measures in place on anti-bribery and anti-corruption to further promote better governance and ethical culture across the organisation.

KEY INITIATIVES

- Conducted on-boarding training programmes for new employees on compliance to HRC's General Business Principles, Code of Conduct, Anti-Bribery & Corruption and Anti-Money Laundering Manual and the Whistleblowing Policy
- Provided refresher training to existing employees and business partners
- Highlighting the value of Integrity in the redefined Mission and Values
- Organised a Business Integrity Week to focus on values, business principles and risks

HIGHLIGHTS:

HRC received certification for ISO 37001: 2016 Anti-Bribery Management Systems in July 2019.

Whistleblowing management policies were reviewed and improved with a Whistleblowing Committee set up at board level.

Please refer to page 56 of our Corporate Governance Overview Statement for more details on the enhancement of our Whistleblowing policy and procedures.



Key Investment Projects

(under Strategic Priority 3)

Critical to our rejuvenation focus was the execution of on-going major projects which will ensure business continuity through compliance with industry regulations. These include the Environmental Quality (Clean Air) Regulations 2014 (CAR 2014), Euro 4 Malaysia (Euro 4M), Euro 5 Gasoil (Euro 5G) and H2GEN projects.



Clean Air Regulations (CAR)

CAR 2014 was gazetted by the Department of Environment in June 2014 and was mandated for compliance in Q3 2019. There were three main scopes to the CAR project; the installation of the Air Pollution Control System (APCS) on our platformer and LRCCU vented streams, and the Predictive Emission Monitoring System (PEMS).

CURRENT STATUS: The project was successfully completed and delivered below budget by 5 per cent. The key APCS at Platformer and LRCCU flawlessly started up on 4 July 2019 and 11 September 2019 respectively, making HRC the first refinery in Malaysia to comply with the regulatory requirements. The PEMS was commissioned in stages as each stack was converted with the last coming on stream before the compliance date and has operated smoothly since.

The new LRCCU wet gas scrubber has attracted comment from our local residents as it continuously and safely emits fluffy white plumes which are mostly pure water vapour, complying with the more stringent limits of CAR 2014. This is completely harmless to the public and the environment and is a key step on our path to minimising our environmental footprint. Several face to face engagements were conducted with the local communities to eliminate their concern on the white plumes.



Euro 4 Malaysia

The Euro 4 Malaysia (Euro 4M) project is crucial for the sustainability of the business to meet the new Malaysian petrol specification requirements. The plant will have a production capacity of 1.15 million tonnes per year and uses a combination of hydro-processing and liquid-liquid extraction technology that has been applied successfully by the licensor in various operating plants in China.

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

CURRENT STATUS: The project is currently working towards completion as per revised timeline. The Company will ensure the quality and safety standards of the project are met.

From 1 January 2020 onwards until project completion, the Company will continue to produce and supply Euro 4M specification product to customers by producing and securing the blend accordingly. To date there was no impact to the Company's operations and no supply disruption to the market.



Euro 5 Gasoil

The Government has mandated that refineries are to comply with Euro 5 specifications for diesel by 1 September 2020. This project has created job opportunities during construction periods, mostly from within Malaysia. Upon completion, the refinery will be able to refine higher sulphur crudes than at present, which would potentially produce higher refining margins.

CURRENT STATUS: The project is on schedule with design and procurement. All tie-in projects were completed during Major Turnaround 2018, so the Euro 5 Project commissioning will have only minor impacts on the operating refinery. The project scope was extensively reduced after in-house reviews with considerable capital savings and the project has been re-optimised to be managed in-house.



H2GEN Project

Once the Euro 4M and Euro 5G projects are completed, HRC will be short of hydrogen used to desulphurise mogas and gasoil components, which would result in loss of product margin. The H2GEN project is developed to produce hydrogen by taking natural gas as feedstock from a national oil and gas company.

CURRENT STATUS: The project is on track to complete as per schedule to coincide with the Euro 5 specification change date. HRC has appointed an internationally recognised Engineering, Procurement, Construction and Commissioning (EPCC) contractor with the requisite credentials to meet the timeline. The project design is completed, most orders have been placed and fabrication is in progress.



Employees Morale and Wellness

(under Strategic Priority 2)

Our people are the vital drivers of our Company Purpose and keeping them loyal and motivated is critical to retaining them within the current competitive landscape. HRC actively ensures our Employee Value Proposition (EVP) remains attractive in terms of salary, benefits, career prospects and training. We annually benchmark our EVP against the Malaysian employment market to ensure it is competitive.

We have on-going inter-departmental moves to refresh and nurture high potential employees and promote employee career advancement opportunities.

KEY PEOPLE INITIATIVES

- The second Employee Engagement Survey was conducted post HRC's 2016 transition. The survey attracted a record high of 90 per cent participation. There were altogether 12 dimensions with a total of 54 questions listed.
- Our impactful "Be Well" programme continued to thrive in 2019 as we enhanced employee engagement activities with the kick-off of the "Be Well 2.0" campaign. This is an employee health improvement programme which encourages employees to achieve healthy balanced lifestyles and improve their health and fitness. The programme consisted of three main categories, namely, "Eat Well", "Move Well" and "Think Well". It was launched in August 2019 and received overwhelming response from the employees.
- The three-year Collective Agreement was negotiated and agreed together with the HRC union in June 2019. HRC's Collective Agreement is one of the very few Productivity Link Wages System (PLWS) in Malaysia. The provision of the Collective Agreement encourages employees to contribute a higher level of performance and to be rewarded accordingly.
- A new Human Resources Information System (HRIS) system has been rolled out to replace the existing Human Resource (HR) system. The new system comes with the Office Automation Application which simplifies the HR processes, making it more efficient.

2019 PERFORMANCE REVIEW

HIGHLIGHTS:

- The Employee Engagement Survey showed that employees viewed the Company as a responsible organisation in matters concerning the environment and with high integrity when dealing with the society / community. The Company scored well on employee engagement matters. However, a few areas for improvements were highlighted on Organisational Leadership and Operational Excellence. A team has been set up to address the issues identified.
- At the Malaysian Society for Occupational Safety & Health (MSOSH) for the Workplace Promotion (WPP) Health Award in Kuala Lumpur, HRC was the only participating company to be awarded "Level 3" (the highest level achieved in 2019 amongst contestants) in recognition of our well-structured "Be Well" WPP programme. The award was newly introduced in 2019 by MSOSH and Pertubuhan Keselamatan Sosial (PERKESO) and is open to all companies in Malaysia.
- The "Be Well" programme also elevated HRC as a finalist for the HR Excellence Award on 17 October 2019 held in Kuala Lumpur. HRC was selected for the final round in the Corporate Wellness category, on par with other corporations who were seasoned participants in this competition.
- The Company signed a Collective Agreement with the HRC trade union which moved the shift structure from an eight-hour basis to a twelve-hour basis. This is a significant milestone in the refinery's long history and will enhance employee work / life balance and on-site maintenance productivity.
- The new Office Automatic Application was rolled out, automating and simplifying many HR internal processes and improving productivity across the site.



Relationships with the Community

(under Strategic Priority 6)

Here to stay and grow with the Port Dickson community, we are committed to be socially responsible in our business affairs and make a positive contribution. As a refinery, we continuously maintain a responsive community feedback mechanism and commit to acknowledging complaints immediately any hour of the day or night and addressing complaints within 48 hours of receipt. Other ways we engage with the community is through outreach programmes, community engagement activities and festive celebrations with our neighbours.

KEY INITIATIVES IN SOCIAL RESPONSIBILITY

- Addressed, investigated and resolved five public grievances
- Engaged in a series of outreach programmes with an investment of RM66,200, such as:

EDUCATIONAL:

- Contribution to the Children Library Kg Sunggala to ensure sustainable education for native children.
- Organised the Kampung Paya Back to School Programme to provide orphans and underprivileged students with school uniforms and other necessities for the new school year in 2020.

ENVIRONMENT

- Continued the Community Park Cleaning programme with Sekolah Menengah Chung Hua Port Dickson to educate the younger generation on the importance of caring for the environment.
- Organised a gotong-royong at the Port Dickson jetty to promote and encourage a safety mindset among the fishermen in Port Dickson.
- Encouraged local schools to educate students on being creative in reusing and recycling materials as part of a DOE World Environment Day initiative.

SOCIAL

- Food care packs and festive goodies distribution to underprivileged communities during Chinese New Year, Hari Raya and Deepavali. These events were supported by a team of volunteers from the HRC leadership team and employees.
- Engagement session with Kampung Arab committee members and resident representatives, to clear the misunderstanding on the "white smoke" released to the atmosphere, which is actually just "water vapour" from our newly commissioned Wet Gas Scrubber and is compliant with CAR 2014.

Note the further clarifications under the CAR 2014 compliance on page 34.

HIGHLIGHTS:

- The engagement session served as an effective avenue for HRC to address residents' concerns and correct misunderstandings on issues. All points raised by concerned residents were captured by the meeting committee and HRC representatives for tracking and follow up until closure. One of the key concerns over a new noise at night-time was addressed and the source was eliminated to the satisfaction of all residents.

STREAMLINING INITIATIVES



Increasing Commercial Value

(under Strategic Priority 5)

HRC has some inherent commercial advantages arising from our geographical location. These include control of the hydrocarbon jetty in Port Dickson, connection to the multi-product pipeline supplying the Klang Valley and KLIA, commercial product agreements with large retail distributors, and a process unit configuration with a high product yield, amongst others.

During 2019, to further strengthen our commercial position, we explored opportunities to further diversify our supplier and customer bases, drive costs down in financing and contract deals, and implemented further protection of margins. Investments in automation were also explored for more accurate and cost-efficient processing.

KEY INITIATIVES

- To supplement our oil supply agreement, we negotiated Term Deals with crude suppliers, especially within Malaysia
- Pursued new customers and alliances
- Followed more opportunities to leverage our hedging capability
- We structurally reviewed the Oil Loss systems and processes
- Third Party Spending – we reviewed our high value contracts to target structural costs decreases
- We automated our gantry system to create a more flexible and robust loading schedule and less waste

HIGHLIGHTS:

- A new crude term supply agreement was forged with a Malaysian oil producer and eight new crudes were processed during the year.
- HRC has also onboarded one new local customer and began positive trials with another. In addition, the Company has signed commercially attractive deals with customers for three new product cuts and have optimised our supply into the new post IMO 2020 low sulphur fuel oil markets. This was upon completion of a successful transition from high to low sulphur petrol specification within refinery assets, as discussed under Product Quality.
- We completed the implementation of hydrocarbon hedging by adding inventory hedging to our portfolio and improved measurement and calculation of hydrocarbon balances to improve Oil Losses to well below target, with more improvements in progress.

- We reviewed and renegotiated our high value contracts for plant maintenance services with significant structural cost reductions.
- We replaced the HR application with a new customised in-house Office Automation (OA) system, generating significant cost reductions.
- We generated structural operating cost savings by developing internal talent to take over Contract and Procurement services formerly rendered by external third-party service contractors.
- We continue to be open to new ventures for gantry sales and ensured that we are ready to take on any such opportunities with our fully automated gantry system.

All these efforts combined contribute to better risk management, more competitive net margins and provide a continuous stable market for our products. Operational expenditure has reduced and the break-even operating cost for 2020 is significantly reduced from the 2019 actual levels.



Managing Environmental Footprint

(under Strategic Priority 3)

HRC's aspiration is to reduce our environmental footprint over the long-term. In our operations, we seek to minimise costs, waste and environmental impacts through active monitoring and management of our resources. Our areas of focus include water and effluents, waste management, gas emissions, and energy management. These are anchored on HRC's Environmental Policy and the standards of the ISO 14001: 2015 Environmental Management Systems.

Separately, monitoring samples are tested by an independent third-party laboratory and the results are reported to the Department of Environment (DOE). Parameters are monitored against the DOE's Environmental Quality (Industrial Effluent) Regulations 2009 and the Malaysia Marine Water Quality Criteria & Standards (MMWQCS). To calculate gas emissions we refer to the American Petroleum Institute (API) Compendium of Greenhouse Gas Emission Methodologies for the Oil and Gas Industry 2009 and ISO 14064-1. Our refinery Energy performance is measured using the Solomon Associates Energy Intensity Index (EII).

Detailed records, measurements and analysis on these areas are reported in our Sustainability Report available at www.hrc.com.my.

2019 PERFORMANCE REVIEW

KEY ENVIRONMENTAL MANAGEMENT INITIATIVES

- Commissioned the CAR project to comply with the government's CAR 2014 specifications in improving and monitoring refinery emissions
- Installed a pH adjuster system as part of the effluent water system to have a better handle in releasing effluent water within the recommended pH specification
- On-going continuous efforts to reduce carbon footprint by minimising greenhouse gas emissions. This is done by managing energy efficiently and reducing flaring through daily monitoring, reviews and regular inspection programmes
- Developed the 2019 Energy Improvement Plan to facilitate the refinery towards achieving its energy goals for 2019. The plan is composed of five key strategies with detailed tactics under each strategy
- Development of the Wastewater Masterplan (WWMP) to improve the quality and assurance of treated effluent water discharges
- In collaboration with Indah Water Konsortium (IWK), HRC has embarked on a feasibility study to improve the wider Port Dickson's area water consumption through the usage of recycled treated sewage water in the refinery process
- Campaigned on waste segregation awareness through a series of roadshows at site in collaboration with in-house contractors. This was done to identify new ways to reduce, recycle or recover generated waste

HIGHLIGHTS:

- Successful completion of the CAR project in compliance with CAR 2014 – see more detailed discussions above under Key Investment Projects.
- Improved energy efficiency with EII index of 110.9 in 2019 compared to 111.7 in 2018.
- Sustained use of raw water in 2019. We are undertaking assessment on recycling of IWK water and if deemed feasible, this will be undertaken in 2020.
- Phase 1A of the WWMP was completed.
- Favourable findings from two environmental compliance audits carried out at the Euro 4M site by DOE approved external auditors. There were zero fine issues, nine environmental best practices observed, two opportunity for Improvements identified and only one finding (on soil erosion protection and on-site sediment control) which was closed within two weeks from the audit date.



Information Technology (IT) Improvements

(under Strategic Priority 6)

IT systems and applications are a key enabler for a highly productive company. IT systems can also be at risk from phishing, hacking and other malicious attacks from external parties. In 2019, HRC focused on reinforcing its IT security and infrastructure to safeguard against such risks.

KEY INFORMATION TECHNOLOGY INITIATIVES

- Replaced the HR application and implemented the OA platform for business process productivity improvements
- Focused on IT security and user awareness. These included upgrading of IT Firewalls, rolling out the Email Advance Threat Protection and perpetually conducting IT awareness training to combat against phishing, malware and cyber threat activities
- Upgrading of key network infrastructures with additional Internet link and core switches upgrade to provide redundancy support for the business
- Successfully automated the Omega Gantry system to interface with multiple enterprise resource planning (ERP) systems

HIGHLIGHTS:

- Our network firewalls, Multifactor Authentication and other security features have been installed to detect, monitor and block malicious activities. These systems are now current and state of the art (with Next Generation Firewalls).
- Additional Internet link and core switches upgrade have provided redundancy support for the network infrastructure and business systems.
- We have successfully obtained ISO / IEC 27001: 2013 Information Security Management Systems accreditation as an external assurance of our IT security systems.
- The gantry system has been upgraded to have seamless data transfer between multiple business systems and is scalable for future growth.

FINANCIAL REVIEW

MARGIN AND FINANCIAL PERFORMANCE

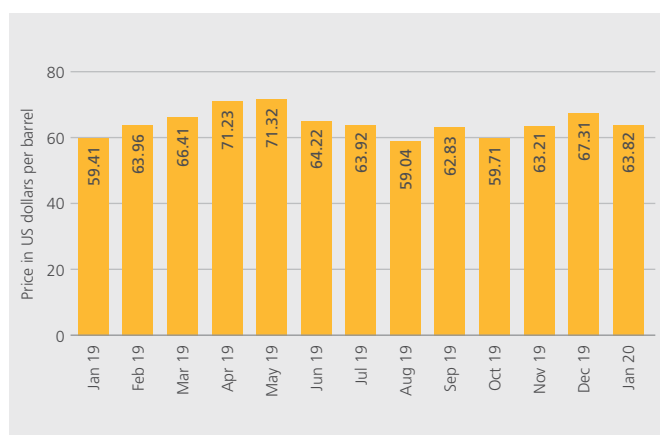
In financial year (FY) 2019, the Company posted a profit of RM35.0 million as compared to RM31.0 million in the previous financial year. Refining margins and crude prices continued to remain volatile during the year. Average current cost of stock margin (CCS) for FY2019 was USD2.49 / bbl vs USD3.44 / bbl for FY2018. First-in, first-out (FIFO) margin for FY2019 was slightly higher at USD3.32 / bbl vs USD 3.00 / bbl in FY2018. Further analysis of the financial performance is as follows:



Revenue and Gross Margin

In FY2019, the Company recorded 19 per cent higher sales volume as compared to FY2018. Total sales volume for FY2019 was at 41.9 million barrels vs 35.1 million barrels in FY2018. Annual sales volume was higher as compared to previous financial year due to scheduled production downtime of 11 weeks in delivering the Major Turnaround 2018 (MTA). Revenue for the year was comparably higher due to 19 per cent higher sales volume but was dragged down by lower market quoted product prices in FY2019. Market quoted product prices averaged USD75 / barrel in FY2019 as compared to USD82 / barrel in FY2018.

BRENT OIL PRICE



In FY2019, the price of average Brent crude oil averaged at USD64 / bbl, USD7 / bbl lower than its FY2018 average. Brent crude oil traded within relatively narrow price ranges throughout the year, with the lowest at USD59 / bbl and the highest at USD71 / bbl. Throughout FY2019, increases in US shale petroleum production had dampened oil prices. The US shale boom has resulted in Brent crude oil staying stubbornly range-bound. Efforts from production cut announcements from the Organisation of the Petroleum Exporting Countries (OPEC), production outages at Libyan fields and the drone and missile attacks on Saudi oil infrastructure could not keep Brent at USD70 / bbl for more than a few days.

Stockholding gains for FY2019 (including the effects of commodity swaps) were USD 0.75 / bbl (2018: USD 0.13 / bbl) with further uplift recognised on the effects of margin swap at USD 0.42 / bbl (2018: USD 0.05 / bbl).

The hedging strategy undertaken by the Company has protected the Company's FIFO margin from eroding although the Company faced internal and external factors such as the PLEM issue and market volatility.

The business improvement tactics delivered a value of USD52.9 million (2018: USD37.7 million). This was attributed to crude optimisation of USD30.0 million, product optimisation of USD12.3 million, refinery process improvement of USD9.4 million and spend optimisation of USD1.2 million.

Average CCS margin for the year was USD2.49 / bbl compared to USD 3.44 / bbl in FY2018. The Company's CCS margin was badly impacted in Q4 2019 due to the damage of the Underwater Pipe Line End Manifold (PLEM) valve. The Company had to reduce its crude intake by 20 per cent to 50 per cent over a 30-day period and incurred additional costs in the form of prompt product and feedstock purchases, demurrages, diversions and freight charges in mitigating the effects of the PLEM shutdown. These strategies were done to ensure that the refinery continued to operate and meet the committed sales volumes.



Income and Expenses

In the current financial year, the Company continued to partially reverse an impairment loss on its property, plant and equipment that was previously recognised in FY2014. The reversal was made after taking into consideration the successful completion of the Clean Air Regulation (CAR) project and higher certainty on the progress of the other key regulatory driven projects, namely Euro 4M, Euro 5G and H2GEN units.

2019 PERFORMANCE REVIEW

The Company recorded higher operating expenditure, other operating losses and taxation whilst being offset by lower depreciation and amortisation and finance costs. The overall impact resulted in profit after tax increasing by 13 per cent as compared to FY2018. Included in other operating expenditure is RM6.2 million relating to the repair cost for the PLEM underwater valve. The Company also donated RM5.0 million to the Food Bank Malaysia programme as part of HRC's corporate social responsibility towards helping the poor cope with increased cost of living whilst reducing food waste.

The year's operating losses included a RM48.6 million loss related mainly to negative fair value returns from commodity swaps, whereas in FY2018, the Company recorded a fair value gain amounting to RM76.9 million. Higher taxation was due to reversal of deferred tax assets arising from unutilised tax losses. The reversal is due to the Malaysia Finance Act 2018 disallowing unutilised tax losses to be carried forward beyond seven (7) years.

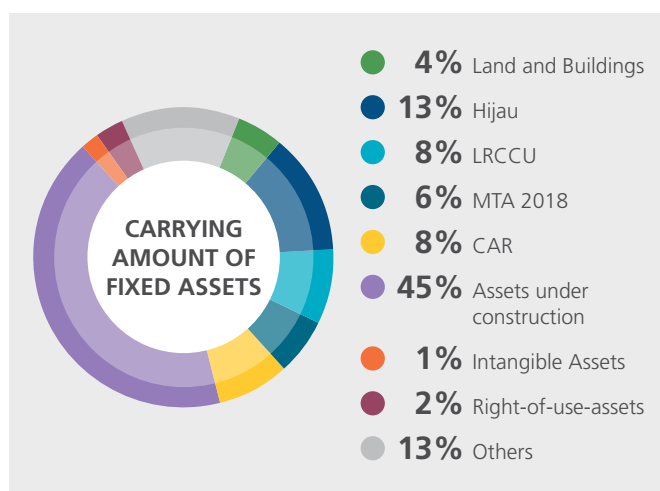
Lower depreciation and amortisation reflect the extended useful life of the refinery assets based on an assessment carried out in the previous financial year. There were lower finance costs for the year due to capitalisation of borrowing costs for major projects such as Euro 4M, H2GEN and Euro 5G.



Total Assets and Liabilities

Total assets increased 35.5 per cent or RM1.5 billion from the previous financial year. Details of total assets of RM5.7 billion in FY2019 is set out below:

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



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

- The Company's current assets comprise of derivatives that have maturity of less than 12 months, inventories, receivables and cash. Current assets have increased from RM2.7 billion to RM3.7 billion, an increase of 35.0 per cent as compared to FY2018. The increase is mainly attributable to increase in cash balances as at year end. Inventory balances increased by 22.4 per cent or RM273 million mainly due to higher inventory volume which coincides with higher sales volume.

Total liabilities have increased by RM1.5 billion from RM2.1 billion in FY2018, to RM3.6 billion. Further details are set out below:

- Current liabilities comprise mainly of payables, derivatives with maturity less than 12 months, revolving credit and a portion of term loan balances that are repayable within the next 12 months. Trade payables mainly relates to payables for crude purchases and payables relating to capital expenditure. Trade payables are higher in FY2019 due to the timing of crude payments and capital expenditure.
- Non-current liabilities comprise of term loans, deferred tax liabilities and derivatives with maturity more than 12 months. Term loans are repayable over a three (3)-year period, denominated in USD and are secured by way of charges on the Company's assets.



Cashflow

As at year end, there was significant improvement in cash balance which stood at RM1.0 billion. This was contributed by RM1.3 billion cash surplus from operations. The net operating cash inflows were utilised in financing approved capital expenditure, repayment of loans and borrowings and servicing the interest charges.








Dividends

The Board of Directors has formed a view that it would not be prudent for the Company to declare dividends at this juncture. The fluid situation of Covid-19 since late January 2020 and slump in oil prices from March 2020 as well as the pending completion of large projects such as Euro 4M, H2GEN unit and Euro 5G has resulted in the Board of Directors taking a very conservative approach in sustaining the operations of the Company. The Board will continue to review the dividend prospects considering long-term value creation to its shareholders.

KEY PERFORMANCE INDICATORS (KPIs) AT A GLANCE

Our KPIs assess the performance of the Company across all aspects of operations in a balanced Business Performance Scorecard. Non-financial indicators include measures of production and reliability, safety, commercial relevance, sustainability and governance. Financial indicators cover margin, financial performance and return on investment. Additional KPIs tied to sustainability are elaborated in our Sustainability Report 2019 which is available on our website at <http://hrc.com.my/sustainability-report.html>.

		2019	2018	2017	2016	2015
 SAFETY	Million Exposure Hours Worked	4.52	3.5	2.0	1.3	1.9
	Lost Time Injuries (LTI)	0	0	0	1	1
	Process Safety Events (API Tier 1)	0	1	1	1	0
	Process Safety Events (API Tier 2)	3	1	0	2	1
	First Aid Cases (FAC)	6	11	5	1	5
 PRODUCTION & RELIABILITY	Operational Availability	96.3%	79.4%	97.4%	82.1%	86.1%
	Unplanned Downtime (UPDT)	3.7%	3.1%	2.3%	7.2%	4.5%
	Production Volume (million bbl)	38.8	32.5	39.7	37.5	33.9
 MARGIN & FINANCIAL PERFORMANCE	Refining Margin (FIFO) (USD / bbl)	3.32	3.0	8.4	5.5	6.1
	Sales Volume ('000 bbl)	41.9	35.2	41.1	39.0	36.3
	Revenue (RM million)	12,637	11,241	11,583	8,365	9,080
	Profit After Tax (RM million)	35.0	31.0	930	335	352
	Cash Generated From / (Used in) Operations (RM million)	1,317	380	477	(5)	783
	Quick Ratio (Current asset-inventory) / Current liability	0.8	1.0	2.5	1.8	0.7
 RETURN ON INVESTMENT	Shareholders' Funds (RM million)	2,011	2,022	1,789	1,010	677
	Earnings / (Loss) Per Share (sen)	12	10	310	112	117
	Return on Average Capital Employed (times) (EBIT / (Average total assets-average current liability))	-	-	0.4	0.2	0.4
 SUSTAINABLE DEVELOPMENT	Energy Intensity Index (EII)	110.9	111.7	111.5	114.0	113.5
	Effluents – Average Oil in Water Concentration (avg mg / l)	1.0	1.0	1.2	0.9	1.0
	Waste Management					
	• Effluent Treatment plant (ETP) Sludge (MT)	305	184	663	624	957
	• Spent Oil Water Emulsion (MT)	1,374	2,175	1,794	1,835	2,084
	Public Complaints	5	3	5	2	5
	Social / Community Project Investment (RM'000)	66.2	68.8	41.9	52.4	NA

RISKS & OPPORTUNITIES

Going forward, uncertainties and volatility on the oil and gas front have escalated as the price of crude oil has dropped to levels not seen in a generation; and due to the prolonged impact of the COVID-19 pandemic. The global demand for oil until recently was about 100 million barrels per day. According to the International Energy Agency Oil Market Report (April 2020), global oil demand is expected to fall by a record 9.3 mb / d year-on-year in 2020.

The additional amount of crude being added into the market by Saudi Arabia and Russia will amplify an oversupply. Moreover, as the inventory of crude and refined products continues to grow amidst plummeting demand for petrol, diesel and jet fuel, the oversupply situation should persist for months even after the COVID-19 crisis. With the build-up of refined product inventories, the refining industry is expected to be depressed.

In these unusual times, measures to slow inventory build-up are likely, though their impact on the continued depressed price of crude and refined products that exist is yet to be determined. Within this challenging environment, HRC has identified the following risks and opportunities, and is committed to remain agile and responsive to opportunities.

STRATEGIC RISKS AND OPPORTUNITIES

HRC has risks and opportunities related to the oil refining business itself, the current state of the oil markets and our geographical location within Malaysia and Southeast Asia.

- **Oil price dynamics, and supply / demand movements**

As discussed in this Annual Report and the accompanying Sustainability Report, we are impacted by crude oil price volatility, the oversupply of products in the region due to new competitor refineries and weak global demand. However, pricing volatility from the frequent global geopolitical disturbances creates both risks and opportunities which can be harnessed with hedging tools. HRC has been successful in turning this volatility into an opportunity through its active use of hedging mechanisms.

- **Industry trends**

As the future outlook for oil and gas indicates a general long-term decline in petrol consumption and the move away from hydrocarbon fuels, HRC is preparing itself to adapt and evolve into new areas of growth that include capturing opportunities in petrochemicals, new energy and other potential alternative energy businesses like Liquefied Natural Gas. This is reflected in HRC's refreshed Vision statement: "To be a Leading Global Energy and Petrochemical Company, Pioneering Sustainable Solutions".

COMPANY-RELATED RISKS AND OPPORTUNITIES

HRC has in place a robust risk assessment matrix that captures all significant risks and opportunities which is reviewed on quarterly basis by the Leadership Team and the Board of Directors. This enables HRC to identify and assess the Company's risks and prepare mitigation plans in advance.

- **Asset integrity**

Refineries are exposed to several inherent risks to safety, productivity and environment associated with diminished asset integrity. Over the past 100 years the refining industry has developed very sound methodologies to manage and

mitigate these risks. HRC applies and continues to enhance best practices for all these risks through strategies pertaining to QHSSE, Process Safety, IT Security, Plant Reliability and Product Quality Management. Controls that have been put in place include investment in process automation, adherence to scheduled turnarounds, frequent monitoring and audits on business processes, quality control and assurance processes by independent Inspection teams. This high level of risk management is reflected with our continuous re-certification of ISO accreditations.

- **Project risks**

As with past and on-going projects, part of the due diligence for each new project includes risk assessments and mitigations for a broad range of technical and construction risks, including wider context risks such as corruption, environment, safety and labour issues, amongst others. HRC is fully aware of project risks and has on-going dialogues with the main contractors to ensure that quality, schedule and cost are within the contractual terms. HRC successfully delivered its CAR project in 2019 within the stipulated contractual period. However, Euro 4M schedule remains as a challenging task due to complexity of the project while other large projects such as Euro 5G and H2GEN, are expected to be completed within schedule.

- **Margin and commercial risk**

As an independent refinery, HRC is exposed to oil price fluctuations which are beyond the Company's control.

To mitigate such risks, HRC has taken initiatives to selectively hedge against crude price and refining margin fluctuations together with inventory hedging to reduce exposure to sudden oil price changes. HRC also understands that to remain in business and to reduce reliance on a single customer is key for the refinery's survival. Therefore, in recent years HRC has actively developed sales to various oil and gas players in the market, both domestically and internationally. Such moves have already borne fruit as we have diversified our sales to new customers in recent months and will continue to break the dependency on a single customer.

- **Cleaner Energy**

HRC is cognisant of the general trend towards a higher demand for cleaner energy and potentially a slowdown in demand for hydrocarbon transport fuels. The Company is looking into options for future investments in petrochemicals and renewable energy / alternative energy to add on to our strong presence in hydrocarbon products.

STRATEGY FOR 2020 AND BEYOND

The Novel Coronavirus (COVID-19) outbreak in China at the end of 2019 has now developed into a global pandemic, posing a significant risk on global economies with its impact on tourism-related businesses and wide-scale closures of manufacturing, commercial and retail businesses in many countries. Domestically, Bank Negara Malaysia and the Ministry of Finance have taken swift action to prescribe stabilisation policies in order to mitigate the economic impact arising from the virus spread, however the prolonged and unprecedented impact of the COVID-19 creates very challenging prospects for Malaysia's economy.

In these extraordinary times, efforts we have made to embed sustainability into every aspect of our operations, culture and mindset can stand us in good stead to tide us through.

As a Group, HRC moves into 2020 primed to leverage on inherent strengths, together with strategies put in place, to help buffer us as we navigate the impacts from the contagion effect of COVID-19 and the oil price slump.

Notwithstanding the challenging landscape that we are operating in today, HRC is rooted in its commitment to be agile in capitalising on the opportunities that lie ahead. 2019 was a year of consolidation and construction. The next few years will be focused on completing the construction while harvesting the benefits and fine-tuning the business. As we move into 2020, our key focus will be on the following six areas:

- Maintain and further improve safety culture and performance.
- Increase profitability (operational quick wins, creeping intake, energy, margin, optimise operating costs, hedging).
- Complete major projects on schedule.
- Prepare for 2022 MTA to improve asset reliability and rejuvenation.
- Enhance employees' morale, talent management and productivity.
- Strengthen the brand and deepen relationship with local stakeholders.

Being agile and nimble will enable HRC to explore both short term and long term new possibilities.

In the short term, these relate to margin gains; in the long term, these relate to opportunities in new energy and alternative energy businesses.

We are constantly looking to close gaps in talent and skills development, productivity and to further cultivate entrepreneurial thinking among our management and employees.

In the next two decades we aspire to pioneer sustainable solutions in energy and petrochemicals.



17.6%

increase in
**contracts awarded
based on competitive
bidding**



Value of
**USD 52.9
million**

derived from Business
Improvement Tactics



19.4%

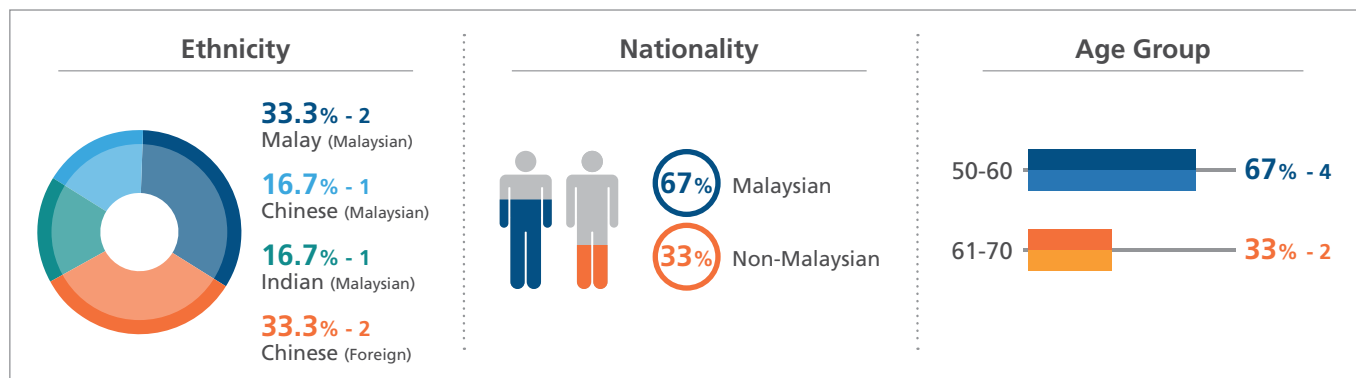
increase in
Production Volume

enhancing
ENTREPRENEURIAL
courage and mindset



BOARD OF DIRECTORS

BOARD DIVERSITY



01



02

01 WANG, YOUDE
Chairman
Non-Independent Non-Executive Director

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

03 ALAN HAMZAH SENDUT
Independent Non-Executive Director

04 FAUZIAH HISHAM
Independent Non-Executive Director

05 LIANG KOK SIANG
Independent Non-Executive Director

**06 SURINDERDEEP SINGH
MOHINDAR SINGH**
Independent Non-Executive Director



03



04



05



06

BOARD OF DIRECTORS' PROFILE

01 Wang, YouDe

Chairman
Non-Independent Non-Executive Director

Chinese	57 years old	Male
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Date of Appointment

22 December 2016

Academic Qualification

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

02 Wang, ZongQuan

Deputy Chairman
Non-Independent Non-Executive Director

Chinese	57 years old	Male
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Date of Appointment

22 December 2016

Academic Qualification / Professional Membership

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



Experience

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

Directorship of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

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

Experience

- Deputy General Manager, Shandong Hengyuan Petrochemical Company Limited (2002-present)
- 14 years of 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

BOARD OF DIRECTORS' PROFILE

03 Alan Hamzah Sendut

Independent Non-Executive Director

Malaysian	60 years old	Male
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Date of Appointment

25 May 2017

Academic Qualification

Bachelor of Science (Hons) University of Wales, Aberystwyth, United Kingdom

Professional Memberships

- 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

- Over 35 years of finance and business experience across multiple industries
- Over 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
- Member of Board Whistleblowing Committee

04 Fauziah Hisham

Independent Non-Executive Director

Malaysian	64 years old	Female
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Date of Appointment

1 June 2017

Professional Membership

Associate member of The Chartered Governance Institute, 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
- Maybank Philippines Inc
- Maybank Trustees Berhad

Membership of Board Committees in HRC

- Member of Board Audit Committee
- Member of Board Nominating and Remuneration Committee



05 Liang Kok Siang

Independent Non-Executive Director

Malaysian	64 years old	Male
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Date of Appointment

1 June 2017

Academic Qualification

Bachelor of Science Hons (Chemistry), University of Malaya

Professional Memberships

- Fellow, Institute of Corporate Directors Malaysia
- Member, Malaysian Institute of Chemistry

06 Surinderdeep Singh Mohindar Singh

Independent Non-Executive Director

Malaysian	51 years old	Male
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Date of Appointment

23 February 2019

Academic Qualification

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



Experience

- 35 years with Shell Malaysia, including as:
 - 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

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

Experience

- Head of Enterprise Business and Solutions in Celcom Axiata Sdn Bhd (2017-2018)
- 24 years with the Shell Group of Companies, including as:
 - General Manager, Strategy and Portfolio, Shell Malaysia Ltd (2014-2016)
 - General Manager, Shell Marine Products (2009-2014)
 - Managing Director, Shell India Marketing Private Limited (2007-2008)
 - Vice President Director, Shell Indonesia (2004-2006)
 - Various leadership positions, including Regional Retail Manager, Operations Excellence Manager and Site System 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	59 years old	Male
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Effective from

March 2018 - February 2020

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. David did not renew his employment contract with HRC and thus relinquished his position in late February 2020.

Erkki Tapio Ranta

Chief Executive Officer

Finnish	56 years old	Male
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Appointed with effect from

March 2020

Erkki holds a Bachelor's Degree in Process Technology from Tampere Institute of Technology in Finland. He brings with him vast experience in the oil and gas industry, and has held a variety of engineering, executive and directorship roles in the last 29 years.

Erkki commenced his career with Air-Ix Oy, Turku located in Finland as a Plant Design Engineer in 1990. Then, he joined Neste Oil Oyj, a downstream oil company in Finland, where he held numerous positions in engineering, operations and was made the HSEQ Director of Naantali, Porvoo, Singapore and Rotterdam refineries. Subsequently, he joined Rijeka Refinery, INA in Croatia in 2015 as the Refinery Director. In 2019, he served as the Chief Expert of Refining and Marketing with INA before assuming his current role in HRC in March 2020.

Jocelyn Wang Chao-Jen

Deputy Chief Executive Officer

Taiwanese	56 years old	Female
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Appointed with effect from

June 2018

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.

Eric Lee Chiong Wong

Chief Operations Officer

Malaysian	58 years old	Male
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Appointed with effect from

December 2018

Eric holds a Degree in Engineering (Mechanical) from the National University of Singapore and has 35 years of working experience, of which 29 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.

Justin Quek Ting Chin

Chief Financial Officer

Malaysian	48 years old	Male
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Appointed with effect from

October 2019

Justin holds a Bachelor's Degree of Accountancy from the University of Bolton (UK) and a Master of Business Administration (with a specialisation in Finance) from the University of Southern Queensland (Australia). He is a Fellow of the Institute of Public Accountants (IPA, Australia), member of the Chartered Institute of Management Accountants (CIMA, UK), member of Chartered Global Management Accountant (CGMA) and Chartered Accountant of the Malaysian Institute of Accountants (MIA).

He has more than 25 years of extensive experience across financial management, accounting, audit, risk management, and senior level strategic planning. His professional career began with Chartered Accountancy firm, DFK International, and has since expanded across diverse industries including onshore and offshore oil and gas services, building construction, civil engineering, property development, steel and mining. Justin was with Sunway Construction Berhad and Leighton Offshore Pte Ltd (a subsidiary of Leighton Holdings Limited in Australia) where he served for 12 years and 4 years respectively; and he was the Chief Financial Officer in GuocoLand (Malaysia) Berhad and Mah Sing Group Berhad, between 2014 to 2018.

Justin was the Group Chief Financial Officer in TSLaw Holdings Group before assuming his current role in HRC.

Zulhazmi Mohamad

Chief Projects Officer

Malaysian	49 years old	Male
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Appointed with effect from

March 2018

Zulhazmi holds a Bachelor of Electrical Engineering (Hons) from the University of Southampton, United Kingdom. He joined the Company in 1994, and has held multiple jobs in projects, engineering, and maintenance over 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.

MANAGEMENT TEAM PROFILE

William Chen Jung Huei

Chief Commercial Officer

Taiwanese	47 years old	Male
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Appointed with effect from

April 2017

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

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

Johan Jainudin

Senior Manager, Technology

Malaysian	42 years old	Male
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Appointed with effect from

February 2012

Johan has a Degree in Chemical Engineering from University of Manchester Institute of Science and Technology (UMIST), United Kingdom, and is a Chartered Engineer of the Institution of Chemical Engineers (IChemE) and Engineering Council, United Kingdom. He has 21 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	40 years old	Male
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Appointed with effect from

November 2012

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 17 years 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.

Islamiah Idris

Human Resources Manager

Malaysian	52 years old	Female
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Appointed with effect from

August 2018

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.

Nur Izatul Fitri Hussein

Chief Internal Auditor

Malaysian	37 years old	Female
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Appointed with effect from

February 2018

Izatul holds a Bachelor's Degree in Accountancy (Hons) from Universiti Utara Malaysia and a Certification in Risk Management Assurance from The Institute of Internal Auditors Inc. She is a Certified Internal Auditor, Certified Fraud Examiner and Chartered Accountant who has over 14 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, member of the Malaysian Institute of Accountants and member of Association of Certified Fraud Examiners. She began her career as a consultant at Ernst & Young Advisory Services Sdn Bhd. She later joined several public listed companies from diverse industries as an Internal Auditor and Risk Management Officer, specialising in financial and operational audit, governance and compliance, business and project risk, business continuity management, IT general control review, project management review and fraud investigation.

Eddie Lim Yong Joo

Risk and Integrity Officer

Malaysian	33 years old	Male
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Appointed with effect from

April 2018

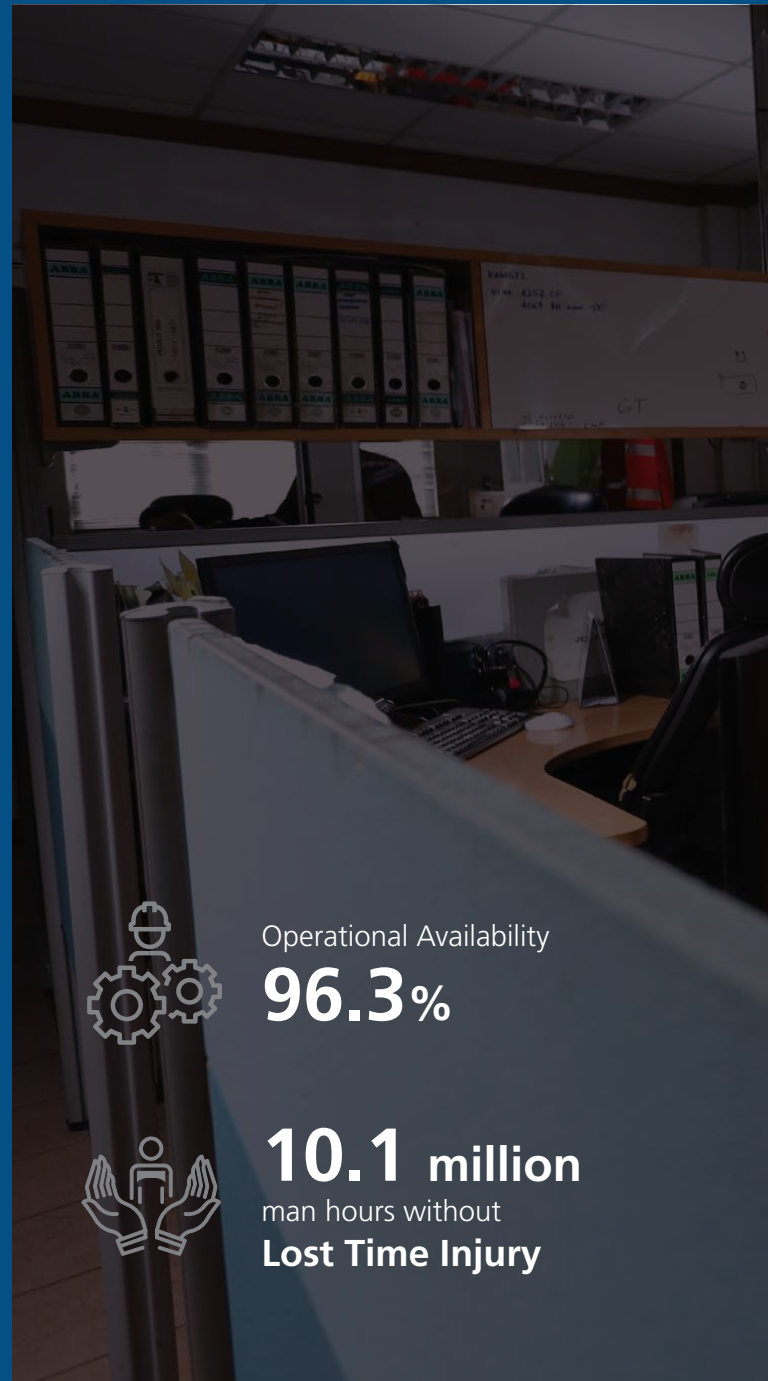
Eddie holds a Bachelor of Commerce (Hons) Accounting from Universiti Tunku Abdul Rahman and a Certificate Risk Management Assurance from The Institute of Internal Auditor Inc. He is a Certified Internal Auditor and Chartered Accountant who has over 12 years of extensive and varied experience in internal and external audits, business process control, enterprise 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.

Eddie also oversees the legal, governance and compliance units in HRC starting from 1 January 2020.

We are proud of our capable and loyal employees. The reliability mindset and accountability at all levels are strongly cultivated in our Company's corporate culture.

In HRC, employees are empowered to take ownership of their work, work as self-motivated teams and stay united towards achievements like Goal Zero and long-term sustainability targets.



Operational Availability

96.3%



10.1 million

man hours without

Lost Time Injury

ACCOUNTABLE

leadership at
all levels



CORPORATE GOVERNANCE OVERVIEW STATEMENT

The Board of Directors (Board) of Hengyuan Refining Company Berhad (Company) recognises the importance of good corporate governance culture within the Company and is committed to instilling the highest standard of its core values (integrity, honesty and respect for people) in the conduct of its businesses and operations. The Board believes these standards are the key to sustainability and delivering long-term value to its shareholders and stakeholders.

The Board is pleased to provide an overview of the Company's corporate governance practices during the financial year ended 31 December 2019 (FY 2019), with reference to the Malaysian Code on Corporate Governance. This statement should be read together with the Company's Corporate Governance Report 2019 which is made available on the Company's website at www.hrc.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The primary role of the Board is to represent, promote and protect the interests of the Company which include the shareholders and stakeholders. To effectively discharge the Board's functions and responsibilities, certain powers were delegated to the Management and relevant Board Committees as follows:

- i. **Board Audit Committee (BAC);**
- ii. **Board Nominating and Remuneration Committee (BNRC);**

- iii. **Board Risk Management Committee (BRMC);**
- iv. **Board Projects Review Committee (BPRC);**
- v. **Board Tender Committee (BTC); and**
- vi. **Board Whistleblowing Committee (BWC).**

On 27 November 2019, the Board established a BWC to assist the Board to further strengthen the Company's corporate governance culture by ensuring the highest standards of integrity, openness and accountability in the conduct of its businesses and operations are met.

Amongst others, the Board assumes the following responsibilities:

No	Principal Responsibilities	Explanation and updates for FY 2019
i	To promote good corporate governance culture within the Company which reinforces ethical, prudent and professional behaviour	<p>The Company has a full set of governance controls including a full set of appropriate policies such as HRC's General Business Principles, Code of Conduct, Manual of Authorities, a control framework, approval checks at various levels and many other controls. Management always seeks to live by and to enforce these principles and controls.</p> <p>On 26 July 2019, the Company was certified by SIRIM to have achieved ISO 37001: 2016 on Anti-Bribery Management Systems. The certificate attests to the Company's commitments to uphold and promote good corporate governance culture within the Company, supported by its existing Core Values, Code of Conduct, General Business Principles and Anti-Bribery & Corruption and Anti-Money Laundering Manual.</p>
ii	Reviewing and adopting a strategic plan for the Company	<p>On 27 November 2019, the Board approved a Business Strategy tabled by the Management which sets out the strategy timelines to achieve both short-term and long-term value creation for the Company. The focus for 2020 is to complete the major projects and mitigation of supply and financial impacts.</p> <p>On the same day, the Board approved the Company's new Purpose, Vision, Mission and Values, setting out a new direction for the upcoming years which will be launched and implemented in 2020.</p>

No	Principal Responsibilities	Explanation and updates for FY 2019
iii	Overseeing the conduct of the Company's business	<p>A Scorecard based on Key Performance Indicators for Management is determined by the Board annually as a mechanism to measure the effectiveness and performance of the Management from time to time.</p> <p>Board and Board Committees meetings are also held in accordance to the frequency specified in the Board Charter and respective Terms of Reference for Board Committees, with additional meetings to be convened as and when necessary to review, challenge and decide all important matters pertaining to the Company which include proposals tabled by the Management.</p>
iv	Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures	To ensure appropriate internal controls and mitigation measures are in place, the BAC and BRMC assist the Board in assessing and anticipating potential risks to the Company and recommending appropriate actions to be taken to mitigate the risks.
v	Succession planning	The BNRC assists the Board to oversee the nomination and remuneration functions to ensure orderly succession planning for directors and key members of the senior management holding the positions of Chief Executive Officer (CEO), Deputy Chief Executive Officer (DCEO), Chief Financial Officer (CFO) and Human Resource (HR) Manager is in place. The BNRC also undertakes the annual assessment of the effectiveness of the Board and Board Committees.
vi	Overseeing the development and implementation of a stakeholder communications policy for the Company	The Company reaches out to its investors and other stakeholders mainly through communications published on the Company's website and announcements made via quarterly financial reports, Bursa Malaysia Securities Berhad (Bursa Malaysia), circulars or press statements, whenever required. Apart from that, the Company continues to engage in active communications with the communities near the Company located in Port Dickson to foster close relationships while consistently updating its stakeholders on the business affairs especially on matters that may affect the community.
vii	Reviewing the adequacy and the integrity of the management information and internal control systems of the Company	<p>The Board and Management continues to base the efficacy of the Company's internal control systems on the control framework approved by the Board since 2018.</p> <p>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 63 of this Annual Report.</p>

The primary roles and responsibilities of the Board and respective Board Committees are available in the latest version of the Company's Board Charter and Terms of Reference for Board Committees, published on the Company's website at www.hrc.com.my.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Separation of Positions of the Chairman and Chief Executive Officer

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

The current CEO of the Company is Mr Erkki Tapio Ranta. Mr David Ronald Keat was the ex-CEO of the Company. He ceased his responsibilities as the CEO of the Company with effect from 29 February 2020 upon the expiry of his employment contract and Mr Erkki Tapio Ranta assumed the position with effect from 1 March 2020. An announcement was made on 28 November 2019 through Bursa Malaysia on the change of principal officer.

Neither Mr David Ronald Keat nor Mr Erkki Tapio Ranta were or are members of the Board.

Company Secretary

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

Access to Meeting Materials

The notices and agenda of meetings duly endorsed by the Chairman together with the relevant board papers are circulated to the members of the Board and Board Committees, at least five (5) working days prior to the meeting date to ensure sufficient time and information for the Board and Board Committees member to review and evaluate the matters to be deliberated at meetings.

For FY 2019, the Board opined that the quality of the content and timeliness for circulation of board papers and meeting minutes had shown improvement in comparison to 2018 based on the Board Evaluation Assessment conducted in November 2019 (BEA FY2019). However, the Board wishes to see further improvement in those areas by the Management to ensure sufficient time and adequate information presented to facilitate decision making on subject matters by the Board and Board Committees.

Board Charter

The Board regularly reviews and evaluates the adequacy of its Board Charter to ensure the clarity in the roles and responsibilities of the Board, its committees, individual directors, the relation between the Board and Management and issues reserved for the Board.

The latest Board Charter was approved by the Board on 29 August 2019 and is published on the Company's website at www.hrc.com.my.

Code of Conduct

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

In addition to the Code of Conduct, the Company's Anti-Bribery & Corruption & Anti Money Laundering Manual (ABC & AML Manual) further strengthens the Company's requirements for its employees and business partners to comply with laws that prohibit bribery, corruption and money laundering.

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

Whistleblowing Policy

The Board regularly reviews and updates the Company's Whistleblowing Policy to ensure a smooth channel to facilitate disclosure of genuine and legitimate improper conduct within the Company. The latest revision to the Whistleblowing Policy was approved on 17 February 2020.

On 29 November 2019, the Board established a BWC as a Board sub-committee with the following primary objectives:

- i. To review, investigate and resolve complaints of improper conduct of any member of the Board or any employee of the Company that is submitted to the BWC through the Company's whistleblowing channel;
- ii. To develop the Company's Whistleblowing Policy and procedures and to implement them together with the management of the Company; and
- iii. To periodically assess the adequacy and effectiveness of the Company's Whistleblowing Policy and procedures and to revise them as necessary.

The composition of the BWC consists of three (3) members of the Board, with a majority being independent directors. The Chairman of BWC is Mr Liang Kok Siang, an independent Non-Executive Director of the Board.

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

II. BOARD COMPOSITION

The Board consists of six (6) Directors, comprising two (2) Non-Independent Non-Executive Directors and four (4) independent Non-Executive Directors to ensure balance of power and authority within the Board.

As at 31 December 2019, none of the Company's independent directors have served beyond nine (9) years on the Board and the Company's Board Charter has set out that the tenure of an independent non-executive director should not exceed a cumulative term limit of nine (9) years.

The Board recognises the importance of having a diverse board with mix of relevant skills, expertise and experience required to provide diverse perspectives and insights for decision making in the best interests of the Company and the BNRC continues to assist the Board with screening and selection for the Board and certain members of the Company's management team, having regards to skills, knowledge, expertise and experience, time commitment, character, professionalism and integrity, ability to work cohesively with other members of the Board, age, gender and cultural background.

As at 31 December 2019, the Board consists of:

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

	Age Group		Gender	
	50-59	60-69	Male	Female
Number of Directors	4	2	5	1

No	Experience / Skills	Percentage
1	Corporate Governance	83%
2	Regulatory Compliance / Legal	67%
3	Internal Controls / Risk Management / Audit	100%
4	Finance: Accounting / Treasury / Tax	67%
5	Corporate Finance / Mergers & Acquisitionss	67%
6	Commercial, Economics and Scheduling	83%
7	QHSSE	83%
8	Strategy and Oil & Gas	67%
9	Supply / Marketing / Sales	50%
10	Contracting and Procurement	33%
11	Project Management / Engineering	67%
12	Human Resource & Development	67%
13	Information Technology	50%
14	Banking	17%

As at 31 December 2019, the Company's Management team consists of:

	Race / Ethnicity				Nationality	
	Malay	Chinese	Indian	Others	Malaysian	Foreigner
Number of Management members	5	3	-	3	8	3

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

*On 1 October 2019, Mr Quek Ting Chin was appointed the Chief Financial Officer of the Company.

The Board does not set specific targets on gender diversity for the Company but recognises the importance of gender diversity. For FY 2019, the Board comprises of six (6) Directors, one (1) of whom is female, representing 17% female representation.

However, the Board opined that the current composition of the Board is sufficient and shall consider on an annual basis or whenever necessary, if appointment of additional member(s) to the Board is required based on the Company's needs or any changes to the current composition to the Board.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Board Nominating and Remuneration Committee

The Chairman of BNRC is Mr Surinderdeep Singh Mohindar Singh, an independent Non-Executive Director appointed to the Board since 23 February 2019.

The BNRC is responsible for assisting the Board on nomination and remuneration functions. For screening and selection of suitable candidates to the Board and even for senior management with the positions of CEO, DCEO, CFO and HR Manager, BNRC may solicit and consider the views of existing Board members, management, major shareholders, independent search firms and a variety of other independent sources. If independent sources were not used, the Board will disclose to that effect in the Company's annual report and explanation will be provided as to why other sources were not used.

Aside from the above, the BNRC is responsible for assisting the Board in establishing procedures and processes towards an annual assessment of the effectiveness of the Board as a whole and each Board Committee (including its size and composition), as well as the contribution of each individual Director. For FY2019, the BNRC decided that the BEA FY2019 would be conducted internally with expansion of the scope to the existing template of questionnaires to cover a holistic perspective to identify areas for improvement.

The results of the BEA FY2019 show that the Board is satisfied with the operation and overall effectiveness of the Board for FY2019 and that the Board has effectively discharged its duties in accordance to the Company's Board Charter. However, the Board opined that there are areas for improvement such as efficiency of Board meetings and succession planning.

The Board Committees (BAC, BNRC, BRMC, BPRC and BTC) had respectively carried out self-evaluation and the members of the Board Committees are satisfied with the overall effectiveness of the respective Board Committees.

III. REMUNERATION

On 27 November 2019, a Directors Remuneration Policy was approved by the Board with the objectives to ensure that the compensation packages to the directors are reflective of the Company's demands, complexities and performance as a whole as well as the skills and experience required, in line with the strategic objectives of the Company which rewards contribution to the long-term success of the Company.

The BNRC is guided by the following principles prior to its endorsement and recommendation to the board of the remuneration to be paid to the individual directors:

- i. The demand, complexities and performance of the Company as a whole;
- ii. The level of responsibilities, skills, expertise and experience required;
- iii. That the remuneration is set at a competitive level for similar roles and responsibilities within current market practices by comparable companies; and
- iv. That any such remuneration incentives do not conflict with the directors' obligations to bring objectivity and independent judgment to the Company.

The remuneration structure for positions of CEO, DCEO, CFO and expatriate employees will continue to be regulated by the BNRC and in accordance with its Terms of Reference,

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

For FY 2019, the details of remuneration breakdown of individual Directors, including fees, salary, bonus, benefits-in-kind and other emoluments (received or to be received from the Company) are as follows:

(in RM'000)	Salaries, Bonus and Salaries Related Benefits	Fees	Attendance and Other Allowances	Total
Wang, YouDe	N/A	793	4	797
Wang, ZongQuan	N/A	234	4	238
Lim Tau Kien	N/A	53	1	54
Alan Hamzah Sendut	N/A	242	4	246
Fauziah Hisham	N/A	186	4	190
Liang Kok Siang	N/A	219	4	223
Surinderdeep Singh Mohindar Singh	N/A	206	3	209
Total		1,933	24	1,957

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 RM57,000.00.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. BOARD AUDIT COMMITTEE

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

The BAC members continuously update themselves of the latest developments in accounting and auditing standards, practices and rules. The list of training courses attended by the members of the Board including the members of the BAC can be found on page 150 of this Annual Report.

Internal and External Audit Function

The adequacy of the HRC Control Framework and effectiveness of the internal control system has been reviewed and endorsed by the BAC based on the assurance provided by management, the internal and external auditors.

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

When dealing with external auditors, the BAC is responsible for recommending to the Board the appointment or re-appointment of external auditor(s) and the associated audit fee after reviewing their suitability, resources, competency and independence and any resignation or dismissal of the external auditor and secure the reasons therefor.

The internal audit charter of the Company's Internal Audit Department (IAD) provides that the IAD will maintain its objectivity and independence at all times and will have no direct operational responsibility or authority over any of the activities audited. However, the BAC is also responsible for reviewing the independence of the internal audit function and assessing the performance of the internal audit members and services provided by the internal audit function annually.

The BAC's report is available on page 68 of this Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board strives to maintain a sound internal control and risk management system to ensure a smooth running of the business and aims 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 opportunities in a disciplined way, to avoid or mitigate risks that can cause loss, reputational damage or business failure, and to enhance resilience to external events.

The Chairman of the BRMC is Mr Wang, ZongQuan, a Non-Independent Non-Executive Director of the Board. The Committee comprises of three (3) members, two (2) of whom are independent non-executive directors.

The BRMC provides oversight and direction on risk management matters to ensure prudent risk management over the Company businesses and operations. The Management is responsible for conducting a systematic and comprehensive evaluation of the key risk areas which were deliberated and presented to the BRMC. The implementation of risk controls is monitored, and the results are presented during the BRMC meetings.

Further details of the risk management and internal control framework are provided in the Board's Statement on Risk Management and Internal Control which is available on page 63 of this Annual Report.

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

I. Communication with Stakeholders

The Board acknowledges the importance of effective communications to ensure that stakeholders are kept informed of the Company's objectives and strategic aims, performance and major developments affecting its business.

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

- i. town hall meetings;
- ii. one-to-one engagements, regular visits and meetings especially to the neighbouring communities near the Company's refinery;

- iii. engagements with local, state and federal government authorities to ensure compliance to laws and regulations applicable to the Company especially on financial, tax, governance, environment and health & safety matters;
- iv. transparent and up-to-date announcements through financial reports, annual and sustainability reports, announcement via Bursa Malaysia, circulars and press releases.

II. Conduct of General Meetings

The Company's Board Charter provides that the Board shall ensure that shareholders are given all necessary information and notice of the annual general meeting of the Company, at least 21 days before the meeting. In practice, the Company has been circulating the notice of annual general meeting of the Company at least 28 days before the meeting. For the Company's 60th Annual General Meeting held on 28 May 2019, the notice of meeting was circulated on 25 April 2019 which was 33 days before the meeting.

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

During the Company's 60th Annual General Meeting held on 28 May 2019, all Directors and Chairs of the respective Committees, CEO, DCEO and CFO attended the meeting and responded to the key matters raised by the shareholders in relation to the performance of the Company.

The minutes of the 60th Annual General Meeting are published at www.hrc.com.my.

The Company's Corporate Governance Report and Corporate Governance Overview Statement was approved by the Board on 17 February 2020.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (Board) of Hengyuan Refining Company Berhad (Company or 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 2019.

BOARD'S RESPONSIBILITY

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

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

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

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

MANAGEMENT'S ROLE

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

RISK MANAGEMENT

The risk management function is 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 for HRC to provide a reasonably sufficient, but not an absolute assurance, against material misstatements, fraud or loss. In addition, it allows HRC to operate and achieve its objectives, within a managed and acceptable risk profile.

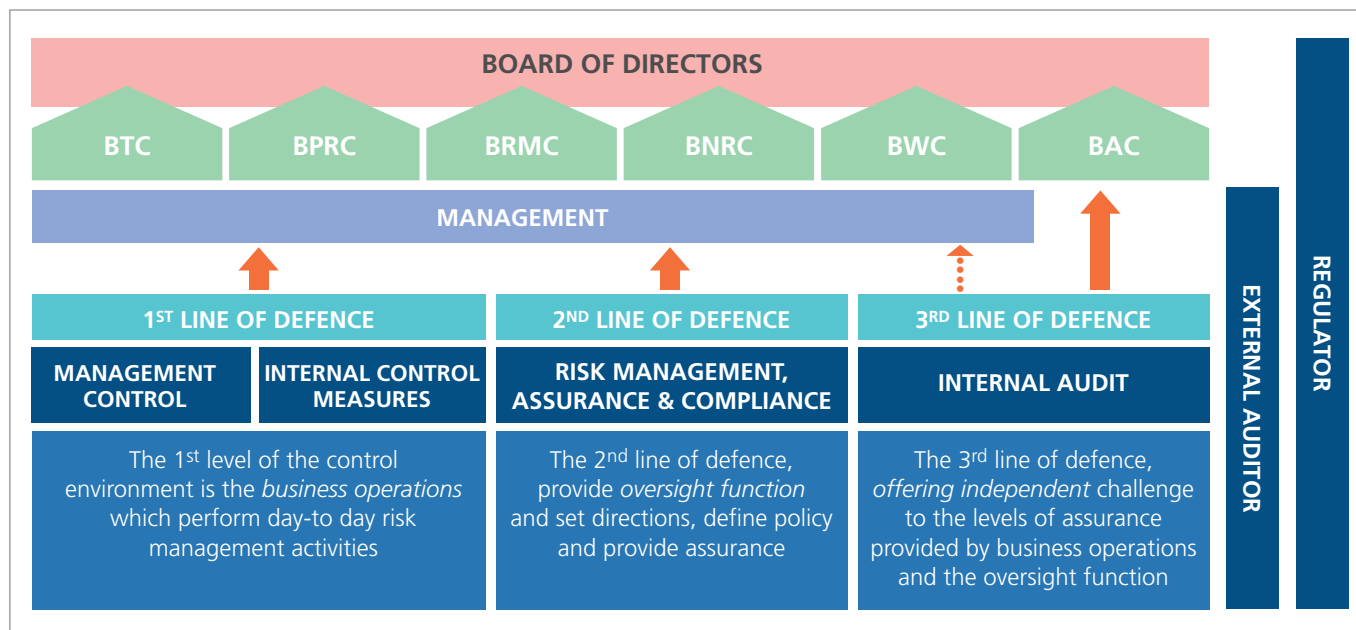
Fit-for-purpose risk responses are primarily intended to:

- Minimise the likelihood of a risk occurring by actively managing the sources of the risk and ensuring competent people are overseeing the risk on a regular basis; and
- Mitigate the impact of a risk should it arise, often through the application of some 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.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THREE LINES OF DEFENCE



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

RISK MANAGEMENT GOVERNANCE

The HRC risk register is segregated into three (3) major components, which are: Quality, Health, Safety, Security and Environment (QHSSE) Risk, Operational Risk and Commercial Risk. All risks will be deliberated on a quarterly basis by the senior management before being brought to the BRMC for review and further deliberation.

INTERNAL CONTROLS

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

1. AUTHORITY AND RESPONSIBILITY

- Certain responsibilities are delegated to the Board Committees through clearly defined Terms of Reference (TOR) which are reviewed annually.
- The Manual of Authorities is reviewed periodically to reflect the authority and authorisation limits of Management in all aspects of HRC's major business operations and regulatory functions.

2. ORGANISATION STRUCTURE AND MANAGEMENT COMMITTEE

- 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 (CEO) and Deputy Chief Executive Officer (DCEO) 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.

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

3. PLANNING, MONITORING AND REPORTING

- a. An annual planning and budgetary exercise are undertaken by all departments to prepare business plans and budgets for the forthcoming year. These are deliberated on by the BAC to ensure alignment with the strategy as agreed at the latest strategy review. Thereafter, the BAC recommends the updated plans and budget to the Board for approval before its implementation.
- b. HRC's financial performances are reviewed regularly by Management. The financial results and variances (if any) are presented to the Board on a quarterly basis.
- c. 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 2019 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 CEO is responsible for ensuring day to day operational compliance within the Company.

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

In 2019, 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, all contractors and all consultants as well as contract employees.
- That we have the right to expect the same standards of behaviour from our colleagues.
- The system for handling of sensitive information and HRC's Intellectual Property.
- Guidelines to help in keeping our business interactions legal, ethical and professional, ensuring that we protect ourselves from any suspicion of wrongdoing and to safeguard HRC's reputation.

7. INFORMATION AND COMMUNICATIONS TECHNOLOGY

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

In year 2019, HRC successfully implemented a new office automation platform that enables automation of internal workflows to increase operational efficiency. The project aims to convert high-risk and critical manual workflows to full automation and reduce redundancy and heavy reliance on its manual paperwork.

8. 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.

9. WHISTLEBLOWING POLICY

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

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

The Policy is available on HRC's corporate website.

10. QUALITY, HEALTH, SAFETY, SECURITY AND ENVIRONMENT (QHSSE), SUSTAINABILITY, SOCIAL AND GOVERNANCE

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

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

A comprehensive list of activities and initiatives performed by HRC is highlighted in the HRC Sustainability Report 2019.

BUSINESS INTEGRITY

In 2018, the Malaysian Anti-Corruption Commission Act 2009 (MACC Act) was amended to incorporate, among other changes, a new Section 17A relating to offences by a commercial organisation or commonly known as Corporate Liability. In supporting the Malaysian Government's strong determination to fight corruption, HRC has set up the integrity unit which is led by the Risk and Integrity Officer to champion corporate integrity matters within HRC. BRMC oversees the implementation of business integrity within HRC and ensures its management systems work in accordance with its intended purposes.

Section 17A of the MACC Act also specifies that if a commercial organisation has adequate procedures in place to prevent an act of corruption, the commercial organisation can use that as a defence in corruption cases involving persons associated with the commercial organisation. In December 2018, the Guidelines on Adequate Procedures pursuant to Section 17A of the MACC Act was launched by the MACC to assist commercial organisations in understanding the adequate procedures that should be implemented to prevent corrupt practices. A checklist detailing the HRC current capability against the MACC guideline was presented to BRMC in February 2019.

HRC has been certified for the ISO 37001: 2016 Anti-Bribery Management Systems in July 2019, being one of the first private organisations in Malaysia to achieve this standard.

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

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

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

The 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 investment, donation 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 supplier summits and awareness programmes held annually. Supplier summits in 2019 were held on 11 July 2019 and 6 November 2019 respectively.

Employees and parties having business dealings with HRC have also 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. Business associates and senior management are subject to integrity due diligence checks from time to time.

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

2. BUSINESS INTEGRITY ACTIVITIES

In year 2019, various activities were organised to strengthen the culture of business integrity within the Company.

During the first week of September 2019, the Risk & Integrity unit organised the annual Business Integrity Week comprising of awareness trainings, exhibitions, business integrity forums, a MACC talk and exciting activities to build-up the business integrity culture within the company. The event was attended by Directors, employees and selected business partners.

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 2019, the following reviews were performed and reported to the BAC:

- a. Audit engagements were carried out based on the annual internal audit plan approved by the BAC. The auditors assessed the audit areas with regard to risk exposures, compliance with approved policies and procedures and relevant laws and regulations. For any significant gaps identified, the auditors provided recommendations to Management to improve the effectiveness of controls where applicable.
- b. Certification / recertification audits were carried out by:
 - SIRIM Berhad for ISO 9001: 2015 Quality Management Systems, ISO 14001: 2015 Environmental Management Systems, ISO 45001: 2018 Occupational Health and Safety Management Systems, ISO / IEC 27001: 2013 Information Security Management Systems, ISO 37001: 2016 Anti-Bribery Management Systems; and
 - The 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 systems.

REVIEW OF THIS STATEMENT

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

CONCLUSION

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

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

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

This Statement on Risk Management and Internal Control is approved by the Board on 8 May 2020.

AUDIT COMMITTEE REPORT

The Board of Directors (Board) of Hengyuan Refining Company Berhad (Company or HRC) presents the Audit Committee Report which provides insights into the manner in which the Board Audit Committee discharged its functions in 2019.

COMPOSITION AND ATTENDANCE

HRC's Board Audit Committee (BAC) comprises four (4) members with a diverse mix of skills, knowledge, experience and perspectives in the areas of accounting, corporate finance, banking, 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 (NEDs). All of the independent NEDs satisfied the test of independence under Bursa Malaysia Securities Berhad's Main Market Listing Requirements (MMLR). The BAC meets the requirements of paragraph 15.09(1)(a) and (b) of the MMLR and Practice 8.4 under Principle B of the Malaysian Code on Corporate Governance (MCCG). The BAC members' attendance records are outlined on page 147 of this Annual Report.

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

The Board reviews the terms of office of the BAC members and assesses the performance of the BAC and its members through an annual Board Committee effectiveness evaluation. The Board was satisfied that the BAC and its members discharged their functions, duties and responsibilities in accordance with the BAC's Terms of Reference (TOR) which is accessible for reference on the Company's website at: www.hrc.com.my. The TOR of the BAC was also reviewed and amended in August 2019.

MEETINGS

The BAC held six (6) meetings during the financial year ended 31 December 2019.

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

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

PwC briefed the BAC on the outcome of the statutory audit for the financial year ended 31 December 2019, significant auditing and accounting matters, internal control recommendations and developments in relevant laws and regulations.

The BAC held its independent meetings with PwC on 22 February 2019 and 20 March 2020 without the presence of Management to discuss and provide feedback on the Company's audit for the financial year ended 31 December 2018 and 2019 respectively, the level of cooperation received from Management, any specific audit concerns and the quality of financial reporting.

Minutes of each BAC meeting were recorded and tabled for confirmation at the next following BAC meeting and subsequently presented to the Board for notation. In 2019, the BAC Chair presented to the Board the BAC's recommendations to approve the annual and quarterly financial statements. The BAC Chair also conveyed to the Board, matters of significant concern as and when raised by the external auditors or internal auditors in the respective quarterly presentations.

ACTIVITIES OF THE BAC

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

The BAC's key activities for the financial year ended 31 December 2019 comprised the following:

1. Financial Reporting

In overseeing HRC's financial reporting, the BAC reviewed the quarterly financial statements for the fourth quarter of 2018 and the annual audited financial statements for 2018 at its meetings on 22 February 2019 and 29 March 2019, respectively.

The quarterly financial statements for the first, second and third quarters of 2019, which were prepared in compliance with the Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting, International Accounting Standard (IAS) 34 Interim Financial Reporting and paragraph 9.22, including Appendix 9B of the MMLR, were reviewed at the BAC meetings on 21 May 2019, 27 August 2019 and 21 November 2019, respectively.

On 17 February 2020 and 20 March 2020, the BAC reviewed the quarterly financial statements for the fourth quarter of 2019 and the annual audited financial statements for 2019 respectively.

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

2. External Audit

The BAC reviewed PwC's audit plan and scope for the financial year ended 2019 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 quarterly financial results during 2019 in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" which were reported and reviewed by the BAC.

On 17 February 2020, the CIA reported that non-audit fees incurred in 2019 amounted to RM33,932, constituting approximately 6 per cent of the total remuneration of RM555,682 to the External Auditors for 2019.

The BAC is satisfied with the objectivity and independence of PwC, whose appointment was approved by shareholders of the Company at HRC's 60th Annual General Meeting.

3. Internal Audit

The IA team conducted the audit work as per the 2019 Annual Audit Plan approved by the BAC on 19 November 2018.

In year 2019, the internal audit function of HRC is monitored by the BAC and consists of two segments:

- (1) An Internal Audit Department (IAD), which acts as an independent evaluating body to assist and provide assurance to the Board, the BAC and Management of HRC. The IAD is headed by the CIA who reports functionally to the Chair of the BAC and administratively to the DCEO. There are two (2) Internal Auditors who report to the CIA. The internal auditors have sufficient mix of knowledge, skills and competencies to execute the audit plan; and
- (2) HRC's Site Internal Assurance (SIA), which comprises 41 trained and / or ISO certified site internal auditors from various departments of HRC. The SIA carries out the site internal audits and process effectiveness of HRC and reports to the Quality & Health, Security, Safety and Environment Manager. All SIA internal audit reports are reviewed by the CIA before finalisation.

Moving forward, in year 2020, the SIA function shall be fully under the monitoring of the CEO and the BAC shall no longer be receiving the quarterly updates on SIA activities directly.

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 RM683,319.

AUDIT COMMITTEE REPORT

4. HRC Assurance Plan 2019

The BAC oversaw HRC's approved internal audit and assurance plan for the year 2019 which consisted of nine (9) regulatory and statutory audits, 19 internal audits and seven (7) 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 9001 Surveillance Audit
ISO 14001 Surveillance Audit
ISO 45001 Surveillance Audit
ISO 27001 Surveillance Audit
ISO 37001 (Stage 1) Certification
ISO 37001 (Stage 2) Certification
ISO 17025 Accreditation and Migration to 2017 Revision
International Ships and Port Facility Security
Internal Audits
Green House Gas Verification
HRC Regulatory Compliance Process
Risk Management Process
Warehousing and Inventory Management Processes
Scrap Management
Loading Gantry Management
Human Resources Processes
Finance and Treasury Processes
Asset Management
Custody Transfer Meter and Mass balance
FAIR – Pressurized Equipment Integrity
ISO 9001
ISO 14001
ISO 45001
ISO 17025
ISO 27001
ISO 37001
Causal Learning
Ensure Plan Delivery

Name of Audit / Review

Process Effectiveness Reviews

Ensure Safe Production
Reliability Centered Maintenance
Pressurized Equipment Integrity
Emergency Response and Preparedness
Mitigate Threats to Availability
Hazard Effect Management Process
Management of Change

The progress of the Internal Audit and Assurance Plan 2019 and its audits were reported to the Board on a quarterly basis.

From 1 January to 26 November 2019, the BAC received four (4) whistleblowing disclosures via various whistleblowing channels and deliberated reports prepared by the CIA on two (2) of the disclosures. Reports on the two (2) remaining disclosures were presented and deliberated at the Board Whistleblowing Committee (BWC) meeting.

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

5. Related Party Transactions

In the year 2019, the BAC reviewed the Company's Circular to Shareholders in relation to the proposed new shareholders' mandate for recurrent related party transactions for the period from 28 May 2019 to the 61st Annual General Meeting of the Company.

The BAC also oversaw the Company's compliance with MMLR in respect of related party transactions and recurrent related party transactions. Quarterly reports on detailed related party transactions and recurrent related party transactions were prepared by the Management and reviewed by the CIA before being presented and deliberated by the BAC. In addition, the BAC ensured that the necessary announcements were made to Bursa Malaysia Securities Berhad accordingly.

6. Whistleblowing Disclosures

Prior to November 2019, the BAC was responsible for overseeing the implementation of the Whistleblowing Policy (Policy). Complaints received via whistleblowing channels were reported by the CIA for the BAC's notation on a quarterly basis.

However, with the establishment of the BWC on 27 November 2019, the responsibility to oversee and implement the Policy had been handed over to the BWC and all complaints shall be received directly by the BWC members independently via various whistleblowing channels. This was done to assist the Board to further strengthen the Company's corporate governance culture by ensuring the highest standards of integrity, openness and accountability in the conduct of its businesses and operations are met.

7. Others

Other matters discussed by the BAC during its meetings include:

- (a) The review of 2018 impairment assumptions and tests;
- (b) The review of the BAC Report and the Statement on Risk Management and Internal Control for the financial year ended 31 December 2018 during the BAC's meeting on 29 March 2019 for the purpose of inclusion in the Company's 2018 Annual Report;
- (c) The review of reports on 2018 crude, margin and foreign exchange (FX) hedging activities and outcome;
- (d) The Company's cash forecast and financing planning;
- (e) The solvency outlook of the Company in the next 12 months and dividend proposal;
- (f) The review of the revised Hedging Policy, which was subsequently approved by the Board on 29 March 2019;
- (g) The review of the External Auditor Assessment policy, which was subsequently approved by the Board on 29 March 2019;
- (h) The review of the revised Manual of Authorities, which was subsequently approved by the Board on 29 March 2019;
- (i) The basis and invoicing analysis of the Recurrent Related Party Transactions;
- (j) The review of the final report of an independent management review performed by Malaysia Hengyuan International Limited; and
- (k) HRC's information technology framework, initiatives and programmes for improving the efficiency, security and robustness and risk management actions taken against cyber or digital threats.

We recognise that success is not just about us but extends to our stakeholders as well.

We continue to maintain good relationships with the surrounding communities and build opportunities to bridge any communication gaps.

We also engage regularly with the government, regulatory agencies, customers, and suppliers to forge new advancements and support collective growth.



RM66,200
**Social Community
Project
Investment**



**Responsive
Channels** to resolve
Public Concerns

RESPECT

for all
stakeholders

