

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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**HENGYUAN REFINING COMPANY BERHAD**

(Company No: 3926-U)

(Incorporated in Malaysia)

**CIRCULAR TO SHAREHOLDERS**

**in relation to the**

**PROPOSED NEW SHAREHOLDERS' MANDATE FOR ADDITIONAL RECURRENT  
RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

The Notice of the Extraordinary General Meeting (“EGM”) of HENGYUAN REFINING COMPANY BERHAD and the Form of Proxy are set out in this Circular. The EGM will be held at Ballroom 2, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 24 May 2018 at 11.30 a.m. or immediately upon the conclusion, or the adjournment of our Fifty-Ninth Annual General Meeting (as the case may be) which will be held at the same venue on the same day at 10.00 a.m. or any adjournment of the EGM, whichever is later, to consider the abovementioned proposal.

If you are unable to attend and vote at the EGM in person, you are requested to complete, sign and return the **original** Form of Proxy enclosed in accordance with the instructions contained therein as soon as possible and in any event so as to arrive at the office of the Company’s 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 or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not later than 48 hours before the time fixed for convening the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the Meeting should you subsequently wish to do so.

Last day and time for lodging the Form of Proxy

: Tuesday, 22 May 2018 at 11.30 a.m.

Date and time of the Extraordinary General Meeting

: Thursday, 24 May 2018 at 11.30 a.m.

**This Circular is dated 3 May 2018**

## DEFINITIONS

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**Except where the context otherwise requires, the following definitions shall apply throughout this Circular:-**

Act	- The Companies Act 2016, including all amendments thereto and any re-enactment thereof.
AGM	- Annual General Meeting of the Company.
Board of Directors or Board	- Board of Directors of the Company.
Bursa Securities	- Bursa Malaysia Securities Berhad (Company No: 635998-W).
Director or Directors	- Shall have the meaning given in section 2(1) of the Capital Markets and Services Act 2007 and includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon: (i) a director of the Company, its subsidiary or holding company; or (ii) a chief executive of the Company, its subsidiary or holding company.
EGM	- Extraordinary General Meeting
HRC or the Company	- Hengyuan Refining Company Berhad (Company No: 3926-U), a company incorporated under the laws of Malaysia.
Listing Requirements	- The Main Market Listing Requirements of Bursa Securities including all amendments thereto.
LPD	- 5 April 2018 being the latest practicable date prior to the printing of this Circular.
Major Shareholder(s)	- A person who has an interest or interests in one or more voting shares in the Company and the number or aggregate number of those shares, is:  (a) equal to or more than 10% of the total number of voting shares in the Company; or (b) equal to or more than 5% of the total number of voting shares in the Company where such person is the largest shareholder of the Company.  This includes any person who is or was within the preceding six (6) months of the date on which the terms of the transaction were agreed upon a Major Shareholder of the Company.  For the purposes of this definition, “interest in shares” shall have the meaning given in Section 8 of the Act.
Management	- The management of the Company.
MHIL	Malaysia Hengyuan International Limited (Company No: LL12508), a company incorporated under the laws of the Federal Territory of Labuan, Malaysia and who is a Major Shareholder with an equity stake of 51.02% in HRC.
Notice	- The Notice convening the EGM of the Company as enclosed in this Circular.
Persons Connected	- Shall have the meaning given to it in Paragraph 1.01 of the Listing Requirements.
Proposed New Shareholders’ Mandate	- Proposed new shareholders’ mandate for additional RRPT which may or will be entered into, as set out in Section 2.2 of this Circular, approval of which is being sought from shareholders at the forthcoming EGM.

Recurrent Transactions or Recurrent Related Party Transactions or RRPT	- Related party transactions involving recurrent transactions of a revenue or trading nature which are necessary for the Company's day-to-day operations and are in the ordinary course of business of the Company.
Related Party(ies)	- A Director, Major Shareholder or person(s) connected with such Director or Major Shareholder of the Company.
RM and Sen	- Ringgit Malaysia and Sen respectively.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Reference to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise stated.

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**HENGYUAN REFINING COMPANY BERHAD**

(Company Number: 3926-U)

(Incorporated in Malaysia)

**Registered Office:-**

UNIT 30-01, LEVEL 30, TOWER A  
VERTICAL BUSINESS SUITE  
AVENUE 3, BANGSAR SOUTH  
NO. 8, JALAN KERINCHI  
59200 KUALA LUMPUR

3 May 2018

**Board of Directors:-**

**Mr. Wang YouDe**

*(Chairman, Non-Independent Non-Executive Director)*

**Mr. Wang ZongQuan**

*(Deputy Chairman, Non-Independent Non-Executive Director)*

**Ms. Lim Tau Kien**

*(Senior Independent Non-Executive Director)*

**Mr. Alan Hamzah Sendut**

*(Independent Non-Executive Director)*

**Puan Fauziah Hisham**

*(Independent Non-Executive Director)*

**Mr. Liang Kok Siang**

*(Independent Non-Executive Director)*

**To: The Shareholders of Hengyuan Refining Company Berhad**

Dear Sir/Madam,

**PROPOSED NEW SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS  
OF A REVENUE OR TRADING NATURE**

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**1. INTRODUCTION**

The Company has on 20 April 2018 announced its intention to seek shareholders' approval for the Proposed New Shareholders' Mandate for RRPT with MHIL as set out in Section 2.2 of this Circular.

The purpose of this Circular is to:-

- (a) provide you with details of the Proposed New Shareholders' Mandate to be entered into by the Company and MHIL as set out in the Notice together with our Board's recommendation; and
- (b) seek your approval for the ordinary resolution in relation to the Proposed New Shareholders' Mandate to be tabled at the forthcoming EGM.

The Notice and the Form of Proxy have been sent to you together with this Circular.

## **2. PROPOSED NEW SHAREHOLDERS' MANDATE**

### **2.1 Provisions under the Listing Requirements**

Under Paragraph 10.09(2) of the Listing Requirements, a listed company may seek shareholders' mandate in respect of related party transactions involving recurrent transactions of a revenue or trading nature which are necessary for its day-to-day operations subject to, *inter alia*, the following:-

- i) the transactions are in the ordinary course of business and are on terms not more favourable to the Related Parties than those generally available to the public;
- ii) the shareholders' mandate is subject to annual renewal and disclosure is made in the annual report of the aggregate value of transactions conducted pursuant to the shareholders' mandate during the financial year where the aggregate value is equal to or more than the prescribed threshold as follows:-
  - (1) the consideration, value of the assets, capital outlay or costs of the recurrent transaction is equal to or exceeds RM1 million; or
  - (2) the percentage ratio of such recurrent transaction is equal to or exceeds one percent (1%),whichever is the higher;
- iii) in a meeting to obtain shareholders' mandate, the interested Director, interested major shareholder or interested person connected with such Director or major shareholder; and where it involves the interest of an interested person connected with a Director or major shareholder, such Director or major shareholder must comply with the requirements set out in paragraph 10.08(7) of Chapter 10 of the Listing Requirements; and
- iv) the listed company immediately announces to Bursa Securities when the actual value of a Recurrent Related Party Transaction entered into by the listed company, exceeds the estimated value of the Recurrent Related Party Transaction disclosed in the Circular by 10% or more and must include the information as may be prescribed by Bursa Securities in its announcement.

The Proposed New Shareholders' Mandate is subject to annual renewal. In this respect, any authority conferred by the Proposed New Shareholders' Mandate shall only continue to be in force until:-

- (a) the conclusion of the next AGM of the Company following the AGM at which the Proposed New Shareholders' Mandate was passed, at which time it will lapse, unless by a resolution passed at the meeting, the authority is renewed; or
  - (b) the expiration of the period within which the next AGM after the date it is required to be held pursuant to Section 340(2) of the Act (but shall not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
  - (c) revoked or varied by resolution passed by the shareholders in a general meeting,
- whichever is the earlier.

#### **Business of the Company and Details of the Recurrent Related Party Transactions**

The principal activity of the Company is the refining and manufacturing of petroleum products. The Company has no subsidiary company.

In view of the time-sensitive, confidential and frequent nature of such RRPT, your Board is seeking shareholders' approval for the Proposed New Shareholders' Mandate.

Details of the transactions to be entered into with MHIL are set out in section 2.2 below. Such transactions are entered into on terms which are not more favourable to MHIL other than those generally available to the public

and which will not be to the detriment of the Company's minority shareholders. The RRPT will also be subjected to the review procedures set out in section 2.4 below.

## 2.2 DETAILS OF THE PROPOSED NEW SHAREHOLDERS' MANDATE

The following new RRPT are anticipated to be entered into by the Company with MHIL in the ordinary course of business under the Proposed New Shareholders' Mandate.

Transacting Party	Principal Activities	Nature of Transaction	Estimated value* from 24/05/2018 (the date of this AGM) to the date of the Sixtieth AGM (RM)
MHIL	(i) Investment holding company;	Sale of petroleum products by HRC	3,300,000,000
	(ii) Provision of central management, business support / administrative services;	Purchase of crude oil by HRC	3,300,000,000
	(iii) Provision of technical and R&D advisory / consultancy services; and	Purchase of petroleum products by HRC	
	(iv) Oil trading and related activities.	Provision of oil and oil products price risk management services to HRC	
		<b>TOTAL</b>	<b>6,600,000,000</b>

### Notes:

The estimated values of the RRPT are based on information available at the point of estimation based on the Company's business forecast for 2018-2019. Due to the nature of the RRPT and factors that may not be within the Company's control, the actual value of RRPT may vary from the estimated values disclosed above.

There is no outstanding amount due under RRPT with MHIL which exceeded the credit term.

## 2.3 RATIONALE AND BENEFITS OF TRANSACTING WITH THE RELATED PARTY

The RRPT entered, or to be entered into by the Company are all in the ordinary course of business of the Company. They are recurring transactions of a revenue or trading nature that are likely to occur with some degree of frequency and arise at any time, as well as from time to time. As part of an international group of companies where similar businesses are conducted, transactions in respect of goods and / or services are likely to occur to take advantage of quality assured products and services, lower operating costs and improved efficiency such as through economies of scale, better utilisation of resources and standardisation of processes and technology.

The benefits of the RRPT to the Company can be categorised generally as follows:

### (i) Trading Transactions for Crude Oil and Petroleum Products

The principal activity of the Company is refining and manufacturing petroleum products. MHIL is involved in activities of a complementary nature, which includes oil trading and related activities. It is therefore in the interests of the Company to transact with MHIL in order to enjoy synergistic benefits.

**(ii) Operating Services**

The RRPT under this category comprise transactions, which if not with a Related Party would not have been entered into by the Company due to industry sensitivities regarding confidentiality and trade secrets. These industry constraints prevent the Company from contracting with parties other than related parties such as MHIL in respect of the activities covered by this category of RRPT. Hence, this category of RRPT represents business opportunities that the Company is in a position to profit from specifically by reason of it transacting with a Related Party.

These RRPT may be constrained by the time-sensitive nature and confidentiality of such transactions and it will be impractical to seek shareholders' approval on a case-by-case basis before entering into such RRPT. As such the Board is seeking approval from shareholders for the Proposed New Shareholders' Mandate, pursuant to the Listing Requirements for the RRPT described above, to allow and facilitate the Company in entering the same on terms which are not more favourable to MHIL than those generally available to the public and which are not to the detriment of the Company's minority shareholders.

The obtaining of the Proposed New Shareholders' Mandate and the renewal of the same on an annual basis would also eliminate the need to announce and / or convene separate general meetings from time to time to seek shareholders' approval as and when potential RRPT arise, thereby reducing substantially the expenses and administrative time in convening such meetings without compromising the Company's business objectives, and would enable the Company and MHIL to carry out recurrent routine transactions necessary for day-to-day operations in a timely manner, and allow resources to be channelled towards attaining other corporate objectives.

## **2.4 REVIEW METHODS OR PROCEDURES FOR RECURRENT RELATED PARTY TRANSACTIONS**

To ensure that such RRPT are undertaken on terms which are not more favourable to the Related Parties than those generally available to the public and which are not to the detriment of the Company's minority shareholders, Management will ensure that the RRPT with the Related Parties will only be entered into taking into account the following procedures:-

- Ongoing awareness sessions with employees, stakeholders, and Related Parties to notify that all RRPT entered are subject to the Listing Requirements. All heads of departments in the Company are advised to report on all transactions with Related Parties.
- A register is maintained to record all transactions with Related Parties which are entered into pursuant to the Proposed New Shareholders' Mandate.
- All transactions with Related Parties are to be negotiated and benchmarked with non-Related Party pricing and subsequently presented, reviewed and approved by a sub-committee (Contracts Board) set up by the Management.
- The Tender Panels and / or Board Tender Committee would then review the appropriate benchmarking (against at least 2 other contemporaneous transactions with non-Related Parties for similar products / services and / or quantities) during the commercial evaluation of the proposals for all contracts with Related Parties to determine whether the price and terms offered to / by the related parties are fair and reasonable and comparable to those offered to / by other unrelated third parties for the same or substantially similar type of produces / services and /or quantities. In the event that such comparison cannot be obtained from non-Related Parties, the Tender Panels and / or Board Tender Committee would review the market information available, sourcing strategy applied and expected unquantifiable benefits to determine whether an arms-length approach has been used to select the Related Party vendor to ensure that the Recurrent Related Party Transaction is not detrimental to the Company.
- The threshold for the approval of Recurrent Related Party Transaction is set out in the Company's detailed business and corporate Manual of Authorities as approved by the Board. RRPT above RM1,000,000 requires the approval of the Tender Panel, Regional Tender Panel or Board Tender Panel, as the case may be. Any non-mandated RRPT that equals or exceeds 1% of the Company's net assets will be reviewed and approved by the Board.



- The annual internal audit plan shall incorporate a review of the records of all RRPT to ensure that relevant approvals have been obtained and that the review procedures in respect of such transactions are adhered to. Any divergence will be reported to the Board Audit Committee.
- The Board and Board Audit Committee shall review the internal audit reports and any other reports required from time to time to ascertain that the guidelines and procedures established to monitor RRPT have been complied with.
- The method and procedures to determine transaction prices, terms and conditions are based on the prevailing market rates / agreed commercially competitive pricing calculation and where appropriate preferential rates and discounts (the same as are accorded to non- Related Parties in large transactions) relative to industry norm.

Further, where any Director has an interest (direct or indirect) in any RRPT, such Director (or his alternate, where applicable) shall abstain from voting on the matter. Where any member of the Board Audit Committee is interested in any transaction, that member shall abstain from voting on any matter relating to any decisions to be taken by the Board Audit Committee with respect to such transactions.

The Company will provide a breakdown of the aggregate value of the RRPT made during the financial year, amongst others, based on the following information:-

- (a) the type of RRPT made; and
- (b) the names of the Related Parties involved in each type of RRPT made and their relationship with the Company.

The above was prepared based on the approved audited financial statements of the Company for the financial year ended 31 December 2017 which was approved by the Board of Directors on 16 April 2018.

## 2.5 DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors, Major Shareholders and / or persons connected with them have any interest, direct or indirect, in the Proposed New Shareholders' Mandate pertaining to the RRPT, save and except for the following:-

- (i) MHIL, a Major Shareholder holding 51.02% equity interest in the Company, is deemed interested in the Proposed New Shareholders' Mandate.
- (ii) Mr. Wang YouDe and Mr. Wang ZongQuan are the nominee directors of MHIL. As such, they are deemed interested in the Proposed New Shareholders' Mandate.

The interested Directors will abstain from voting on the ordinary resolution approving the Proposed New Shareholders' Mandate at the forthcoming EGM. These Directors have also undertaken that they will ensure that Persons Connected with them will abstain from voting on the ordinary resolution approving the Proposed New Shareholders' Mandate at the forthcoming EGM.

Save as disclosed below, as at 5 April 2018, none of the interested Directors, interested Major Shareholders and / or persons connected to them have any direct or indirect shareholdings in the Company:-

<b><u>Interested Major Shareholders</u></b>	<b><u>Direct Interest</u></b>	<b><u>%</u></b>	<b><u>Indirect Interest</u></b>	<b><u>%</u></b>
MHIL	153,069,002	51.02	-	-

The interested Major Shareholders will abstain from voting in respect of their direct and indirect interests in the Company on the ordinary resolution to approve the Proposed New Shareholders' Mandate at the forthcoming EGM. The interested Major Shareholders have also undertaken that they shall ensure that persons connected

with them shall abstain from voting on the said ordinary resolution approving the Proposed New Shareholders' Mandate at the forthcoming EGM.

Mr. Wang YouDe and Mr. Wang ZongQuan, as interested Directors, have abstained and shall continue to abstain from deliberations of and voting at the Board in respect of all RRPT in which they are deemed interested.

## **2.6 STATEMENT BY THE BOARD AUDIT COMMITTEE**

The Board Audit Committee who is responsible to determine whether the procedures for reviewing transactions that involve Related Parties are sufficient to ensure compliance with the relevant requirements, has seen and reviewed the procedures mentioned in Section 2.4 above and is of the view that the said procedures are sufficient to ensure that the RRPT are not more favourable to the Related Parties than those generally available to the public and are not to the detriment of the Company's minority shareholders. Further, the Board Audit Committee is of the view that adequate procedures and processes are in place to monitor, track and identify RRPT in a timely and orderly manner, and is satisfied with the frequency of review of these procedures and processes. The procedures and processes are reviewed on an ad-hoc basis based on recommendations from the internal audit department or the Management of the Company.

## **2.7 CONDITIONS OF THE PROPOSED NEW SHAREHOLDERS' MANDATE**

The Proposed New Shareholders' Mandate is subject to the approval from the shareholders of the Company at the forthcoming EGM to be convened.

## **3. DIRECTORS' RECOMMENDATION**

Your Board, excluding Mr. Wang YouDe and Mr. Wang ZongQuan, being the interested directors, having considered the rationale and benefits of the Proposed New Shareholders' Mandate, is of the opinion that the Proposed New Shareholders' Mandate is in the best interest of the Company and its shareholders.

Accordingly, your Board, excluding Mr. Wang YouDe and Mr. Wang ZongQuan, being the interested directors, recommend that shareholders vote in favour of the resolution pertaining to the Proposed New Shareholders' Mandate to be tabled at the forthcoming EGM.

## **4. EGM**

The ordinary resolution to vote on the Proposed New Shareholders' Mandate is set out in the Notice attached to this Circular. The EGM will be held at Ballroom 2, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 24 May 2018 at 11.30 a.m. or immediately upon the conclusion, or the adjournment of our Fifty-Ninth Annual General Meeting (as the case may be) which will be held at the same venue on the same day at 10.00 a.m. or any adjournment of the EGM, whichever is later, to consider the abovementioned proposal.

If you are unable to attend and vote at the EGM in person, you are requested to complete, sign and return the **original** Form of Proxy enclosed in accordance with the instructions contained therein as soon as possible and in any event so as to arrive at the office of the Company's 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 or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not later than 48 hours before the time fixed for convening the EGM. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the Meeting should you subsequently wish to do so.

**5. FURTHER INFORMATION**

Shareholders are requested to refer to the attached Appendix I of this Circular for further information.

Yours faithfully  
For and on behalf of the Board of Directors  
**HENGYUAN REFINING COMPANY BERHAD**

**ALAN HAMZAH SENDUT**  
Board Audit Committee Chair  
Independent Non-Executive Director

## **APPENDIX I**

### **FURTHER INFORMATION**

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#### **1. Directors' Responsibility Statement**

This Circular has been reviewed and approved by the Board of Directors of the Company who collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm that after having made all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts, the omission of which would make any statement herein misleading.

#### **2. Material Contracts**

There are no material contracts (not being contracts entered into in the ordinary course of business) that have been entered into by the Company during the two (2) years immediately preceding the date of this Circular.

#### **3. Material Litigation**

The Company is not engaged in any material litigation, claims or arbitration either as a plaintiff or defendant, and the Board of Directors are not aware of any proceedings, pending or threatened, against the Company or of any fact likely to give rise to any proceedings which might materially or adversely affect the position or business of the Company.

#### **4. Documents Available for Inspection**

Copies of the following documents are available for inspection during normal business hours at the Registered Office of the Company at Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur from the date of this Circular up to and including the date of the EGM:-

- (i) the Constitution of the Company; and
- (ii) the audited financial statements of the Company for the past two (2) financial years ended 31 December 2016 and 31 December 2017.

*[The rest of this page has been intentionally left blank]*