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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
(F.K.A. SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD)
(Company No: 3926-U)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

in relation to the

- **PROPOSED RENEWAL OF THE EXISTING SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**
- **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 (F.K.A. SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD) and the Form of Proxy are set out in this Circular. The EGM will be held at Nexus Ballroom 1 & 2, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Wednesday, 24 May 2017 at 3.30 p.m. or immediately upon the conclusion, or the adjournment of our Fifty-Eight Annual General Meeting (as the case may be) which will be held at the same venue on the same day at 2.30 p.m. or any adjournment of the EGM, whichever is later, to consider the abovementioned proposals.

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 forty-eight (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	: Monday, 22 May 2017 at 3.30 p.m.
Date and time of the Extraordinary General Meeting	: Wednesday, 24 May 2017 at 3.30 p.m.

This Circular is dated 9 May 2017

DEFINITIONS

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

Act	- The Companies Act 2016 including all amendments thereto.
Affiliates	<ul style="list-style-type: none">- Royal Dutch Shell plc. and any company which is for the time being directly or indirectly affiliated with Royal Dutch Shell plc. For the purpose of this definition, a particular company is directly affiliated with another company or companies holding shares carrying more than 50% of the votes at the general meeting of the particular company, and a particular company is indirectly affiliated with a company or companies if a series of companies can be specified, beginning with Royal Dutch Shell plc. and ending with the particular company, so related that each company of this series except Royal Dutch Shell plc. is directly affiliated with one or more of the companies earlier in the series.¹- Malaysia Hengyuan International Limited and any company which is for the time being directly or indirectly affiliated with Malaysia Hengyuan International Limited from 22 December 2016. For the purpose of this definition, a particular company is directly affiliated with another company or companies holding shares carrying more than 50% of the votes at the general meeting of the particular company, and a particular company is indirectly affiliated with a company or companies if a series of companies can be specified, beginning with Malaysian Hengyuan International Limited and ending with the particular company, so related that each company of this series except Malaysian Hengyuan International Limited is directly affiliated with one or more of the companies earlier in the series.²
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	<ul style="list-style-type: none">- 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:<ul style="list-style-type: none">(i) a director of the Company, its subsidiary or holding company; or(ii) a chief executive of the Company, its subsidiary or holding company.
Existing Shareholders’ Mandate	- The Shareholders’ Mandate for the Company to enter into recurrent related party transactions with the Related Parties of a Revenue or Trading Nature for which approval from the shareholders was previously obtained during the Fifty-Seventh AGM on 26 May 2016 and such authority shall expire at the conclusion of the Fifty-Eighth AGM.
EGM	- Extraordinary General Meeting

¹ With respect to Royal Dutch Shell plc., this definition is applicable up to 22 December 2016.

² With respect to Malaysian Hengyuan International Limited, this definition is applicable from 22 December 2016.

DEFINITIONS – CONT'D

HRC or the Company	- Hengyuan Refining Company Berhad (F.K.A. Shell Refining Company (Federation Of Malaya) 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	- 10 April 2017 being the latest practicable date prior to the printing of this Circular.
Major Shareholder(s)	<p>- A person who has an interest or interests in one or more voting shares in the Company and the nominal amount of that share, or the aggregate of the nominal amounts of those shares, is:</p> <p>(a) equal to or more than 10% of the aggregate of the nominal amounts of all the voting shares in the Company; or</p> <p>(b) equal to or more than 5% of the aggregate of the nominal amounts of all the voting shares in the Company where such person is the largest shareholder of the Company.</p> <p>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.</p> <p>For the purposes of this definition, “interest in shares” shall have the meaning given in Section 8 of the Act.</p>
Management	- The management of the Company.
Mercuria China	- Mercuria (China) Investment Co. Ltd (Company Reg. No: 911100005877248403), a company incorporated under the laws of the People’s Republic of China.
Mercuria Singapore	- Mercuria Energy Trading Pte Ltd (Company Reg. No: 200406884M), a company incorporated under the laws of Singapore.
MHIL	Malaysia Hengyuan International Limited (Company No: LL12508), a company incorporated under the laws of the Federal Territory of Labuan, Malaysia.
Notice	- The Notice convening the EGM of the Company as enclosed in this Circular.
Proposed New Shareholders’ Mandate	- Proposed new shareholders’ mandate for additional RRPT which may or will be entered into, as set out in Section 2.2.2 (b) of this Circular.
Proposed Renewal of Shareholders’ Mandate	- Proposed renewal of the Existing Shareholders’ Mandate as set out in Section 2.2.2(a) of this Circular.
Proposed Shareholders’ Mandate	- Collectively, the Proposed Renewal of Shareholders’ Mandate and the Proposed New Shareholders’ Mandate, approvals of which are being sought from the 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.

DEFINITIONS – CONT'D

RM and Sen	- Ringgit Malaysia and Sen respectively.
SHPCL	- Shandong Petrochemical Company Limited (Company Reg No: 913700001676531851), a company incorporated under the laws of the People's Republic of China.
Shell Group	- A company or a group of companies, as the context requires, which is/are for the time being directly or indirectly affiliated, with Royal Dutch Shell plc.
Significant Related Party Transactions	- The Recurrent Transactions which value is 3.75% of the Profit/Loss Before Tax of the Company for the financial year as agreed with Messrs. PricewaterhouseCoopers, as disclosed in the 2016 Annual Report.
2016 Annual Report	- Annual Report of the Company for the financial year ended 31 December 2016.

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
(F.K.A. SHELL REFINING COMPANY (FEDERATION OF MALAYA) 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

9 May 2017

Board of Directors:-

Mr. Wang, YouDe

(Chairman, Non-Independent Non-Executive Director)

Mr. Martinus Joseph Marinus Aloysius Stals

(Managing Director)

Mr. Wang, ZongQuan

(Non-Independent Non-Executive Director)

Mr. Sun, JianYun

(Non-Independent Non-Executive Director)

Y.Bhg. Dato' Seri Talaat bin Haji Husain

(Senior Independent Non-Executive Director)

Y.Bhg. Datuk Zainun Aishah binti Ahmad

(Independent Non-Executive Director)

Mr. David Lau Nai Pek

(Independent Non-Executive Director)

Y.Bhg. Datuk Yvonne Chia

(Independent Non-Executive Director)

Mr. Heng Hock Cheng

(Independent Non-Executive Director)

To: The Shareholders of Hengyuan Refining Company Berhad (f.k.a. Shell Refining Company (Federation of Malaya) Berhad)

Dear Sir/Madam,

- **PROPOSED RENEWAL OF THE EXISTING SHAREHOLDERS' MANDATE FOR RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE; AND**
- **PROPOSED NEW SHAREHOLDERS' MANDATE FOR ADDITIONAL RECURRENT RELATED PARTY TRANSACTIONS OF A REVENUE OR TRADING NATURE**

1. INTRODUCTION

At the Fifty-Seventh AGM of the Company held on 26 May 2016, the Company had obtained a mandate from its shareholders to enter into RRPT with the Related Parties. The Existing Shareholders' Mandate will expire at the conclusion of the forthcoming Fifty-Eighth AGM scheduled to be held on 24 May 2017.

The Company has on 9 May 2017, announced its intention to seek shareholders' approval for the Proposed Shareholders' Mandate, consisting of:

- (a) the Proposed Renewal of Shareholders' Mandate for RRPT with the Related Parties as set out in Section 2.2.2 (a) of this Circular; and
- (b) The Proposed New Shareholders' Mandate for additional RRPT with Related Parties as set out in Section 2.2.2 (b) of this Circular.

The purpose of this Circular is to:-

- (a) provide you with details of the Proposed Shareholders' Mandate to be entered into by the Company and its Related Parties as set out in the Notice;
- (b) set out the views of your Board of Directors; and
- (c) seek your approval for the resolutions to be tabled at the forthcoming EGM.

The Notice and the Form of Proxy are enclosed in this Circular.

2. PROPOSED 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 Shareholders' Mandate is subject to annual renewal. In this respect, any authority conferred by the Proposed 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 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 annual general meeting 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 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 of Directors is seeking its shareholders' approval for the Proposed Shareholders' Mandate.

The details of the Significant Related Party Transactions concluded during the last financial year ended 31 December 2016 had been disclosed in the 2016 Annual Report that is sent together with this Circular. Please refer to "Significant Related Party Transactions" in the 2016 Annual Report for further information.

The transactions within the class of Related Parties are set out in section 2.2 below and such transactions are entered into on terms which are not more favourable to the Related Parties 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 CLASS AND NATURE OF RRPT

2.2.1 Class of Related Parties

The general transactions entered into by the Company with the Shell Group of companies, Malaysia Hengyuan International Limited, Shandong Hengyuan Petrochemical Company Limited and Mercuria Energy Trading Pte Ltd relates to the provision of or the obtaining of products and services to or from the Related Parties which are necessary for its day to day operations.

No.	Related Party	Principal Activities	Relationship
1.	Shell Malaysia Trading Sendirian Berhad	Marketing and distribution of petroleum products and blending of lubricating oil in West Malaysia.	Up until 22 December 2016, these companies were Affiliates of HRC where the common ultimate holding company is Royal Dutch Shell plc.
2.	Shell Timur Sdn Bhd	Marketing and distribution of petroleum products.	<p>Post 22 December 2016, the Company deems the Shell Group as persons connected to HRC as Mr. Martinus Joseph Marinus Aloysius Stals, the managing director of HRC, is an employee of Shell Global Solutions (Malaysia) Sdn. Bhd. and is seconded to the Company.</p> <p>Shell Global Solutions (Malaysia) Sdn. Bhd. and these companies have a common ultimate holding company, which is Royal Dutch Shell plc.</p>

3.	Shell International Eastern Trading Company	Trading in crude oil and petroleum products and marine activities.	
4.	Shell Eastern Trading Chemicals (Singapore) Pte. Ltd.	Trading in chemicals products.	
5.	Shell International Petroleum Company Limited	Provision of management advisory and business support services to the Shell Group.	
6.	Shell Global Solutions International B.V.	Engaging in research and development activities and the provision of related technical advice and services and licensed technologies, project design services and catalyst supply	
7.	Shell Global Solutions (Malaysia) Sdn. Bhd.	Engaging in research and development activities and the provision of related technical advice and services.	
8.	Shell Lubricants Supply Company	Trading in lubricants raw materials.	
9.	Shell Eastern Trading (Pte) Ltd	Trading in lubricants products and raw materials.	
10.	Shell Business Service Centre Sdn. Bhd.	Provides management, financial, accounting, information technology and human resource services and administration services to the Shell Group in the Asia-Pacific Region.	
11.	Shell People Services Asia Sdn Bhd	Provides human resources professional services, including compensation benchmarking, employee services, learning and recruitment to the Shell businesses across Asia Pacific and globally.	
12.	Shell Malaysia Limited	Provision of corporate services and Shell Group arrangements for Shell Malaysia companies.	
13.	Shell Deutschland Oil GMBH	Marketing of petroleum products and petrochemicals.	
14.	Infineum Singapore Pte. Ltd	Manufacturing of lubricants products and chemicals.	
15.	Malaysia Hengyuan International Limited (“MHIL”)	Investment holding company.	MHIL is a Major Shareholder of the Company ^(a) .
16.	Shandong Hengyuan Petrochemical Company Limited (“SHPCL”)	Manufacturing of petrochemicals and the development, production, process and marketing of petroleum products.	SHPCL has an indirect interest in the Company through its wholly owned subsidiary, Heng Yuan Holdings Limited, and Heng Yuan Holdings Limited’s wholly owned subsidiary, MHIL.

17.	Mercuria Energy Trading Pte Ltd (“ Mercuria Singapore ”)	Sourcing, supplying and trading of crude oil and refined petroleum products and other commodities including iron ore, coal and agricultural commodities, the provision of commodity performance and risk management services and the conduct of commodities industry investment.	<p>The Company deems Mercuria Singapore as a person connected to HRC as Mr. Sun, JianYun, a non-executive director of HRC, is also an employee of Mercuria (China) Investment Co. Ltd. (“Mercuria China”).</p> <p>Mercuria China and Mercuria Singapore are both indirect wholly owned subsidiaries of Mercuria Energy Group Limited.</p>
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Notes:

- (a) MHIL became a Major Shareholder of the Company on 22 December 2016 after acquiring an equity stake of 51% in HRC. As at 31 March 2017, MHIL holds an interest of 51.02% in HRC.

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2.2.2 Nature of RRPT

The nature of the Recurrent Transactions between the Company and the following Related Parties with whom the RRPT are proposed to be carried out are tabulated as follows:

(a) Proposed Renewal of Shareholders' Mandate

Related Party		Nature of Transaction	Estimated value under the Existing Shareholders' Mandate (RM)	Actual value from 26/05/2016 (the date of last AGM) to LPD (RM)	Estimated value* from 24/05/2017 (the date of this AGM) to the date of the Fifty-Ninth AGM (RM)
1.	Shell Malaysia Trading Sendirian Berhad. ("SMTSB")	Sale of petroleum products by HRC to SMTSB	14,611,900,000	5,948,708,078	12,500,000,000
		Operation of HRC's multi product pipeline feeder facilities by SMTSB			
		Use of HRC's lubricant oil blending plant and marshalling yard by SMTSB			
		Fees for provision of throughput services by HRC to SMTSB			
		Palm Oil Methyl Ester (POME) tank rentals by SMTSB from HRC	17,000,000	16,637,987	0
		Provision of central management and administrative services to HRC			
		Purchase of lubricants by HRC			
		Purchase of petroleum products by HRC (a)	0	0	17,000,000
2.	Shell Timur Sdn Bhd ("STSB")	Sale of petroleum products by HRC to STSB	2,000,000,000	1,313,335,354	3,000,000,000
		Purchase of petroleum products by HRC from STSB	1,000,000,000	410,956,142	1,000,000,000

Related Party		Nature of Transaction	Estimated value under the Existing Shareholders' Mandate (RM)	Actual value from 26/05/2016 (the date of last AGM) to LPD (RM)	Estimated value* from 24/05/2017 (the date of this AGM) to the date of the Fifty-Ninth AGM (RM)
3.	Shell International Eastern Trading Company ("SIETCO")	Sale of petroleum products by HRC to SIETCO	2,007,000,000	430,945,965	1,900,000,000
		Purchase of crude oil by HRC from SIETCO	21,000,000,000	7,153,568,158	16,500,000,000
		Purchase of petroleum products by HRC from SIETCO			
		Provision of oil and oil products price risk management services by SIETCO to HRC			
4.	Shell International Petroleum Company Limited ("SIPC")	Provision of central management and administrative services by SIPC to HRC	25,000,000	15,474,775	0
		Provision of research & development and technical support services by SIPC to HRC			
		Provision of research & development and technical support services by SIPC to HRC	25,000,000	21,640,000	0
5.	Shell Eastern Trading Chemicals (Singapore) Pte. Ltd.	Sale of petroleum products by Shell Eastern Trading Chemicals (Singapore) Pte. Ltd. To HRC.	1,000,000,000	253,980,508	560,000,000
6.	Shell Global Solutions International B.V.	Provision of general business and technical support services by Shell Global Solutions International B.V. to HRC	30,000,000	12,777,141	5,000,000

Related Party		Nature of Transaction	Estimated value under the Existing Shareholders' Mandate (RM)	Actual value from 26/05/2016 (the date of last AGM) to LPD (RM)	Estimated value* from 24/05/2017 (the date of this AGM) to the date of the Fifty-Ninth AGM (RM)
7.	Shell Global Solutions (Malaysia) Sdn. Bhd.	Provision of general business and technical support services by Shell Global Solutions (Malaysia) Sdn. Bhd. to HRC	13,000,000	1,426,368	5,000,000
8.	Shell Lubricants Supply Company	Purchase of lubricants raw materials by HRC from Shell Lubricants Supply Company	75,000,000	0	0
9.	Shell Eastern Trading (Pte) Ltd	Purchase of lubricants products and raw materials by HRC from Shell Eastern Trading (Pte) Ltd	355,000,000	59,575,656	0
10.	Shell Business Service Centre Sdn. Bhd. ("SBSC")	Provision of management, financial, accounting and administration services by SBSC to HRC Provision of IT support and administrative services by SBSC to HRC Provision of human resources professional services, including compensation benchmarking, employee services, learning and recruitment by SBSC to HRC	13,000,000	4,941,847	0

Related Party		Nature of Transaction	Estimated value under the Existing Shareholders' Mandate (RM)	Actual value from 26/05/2016 (the date of last AGM) to LPD (RM)	Estimated value* from 24/05/2017 (the date of this AGM) to the date of the Fifty-Ninth AGM (RM)
11.	Shell People Services Asia Sdn. Bhd.	Provision of human resources professional services, including compensation benchmarking, employee services, learning and recruitment by Shell People Services Asia Sdn. Bhd. to HRC	3,000,000	106,704	0
12.	Shell Malaysia Limited	Provision of central management and administrative services by Shell Malaysia Limited to HRC	3,000,000	2,162,130	0
13.	Shell Deutschland Oil GMBH	Purchase of base oil by HRC from Shell Deutschland Oil GMBH	1,000,000	0	0
14.	Infineum Singapore Pte. Ltd.	Purchase of chemical products by HRC from Infineum Singapore Pte. Ltd.	4,500,000	2,986,614	4,500,000
TOTAL			42,183,400,000	15,649,223,427	35,491,500,000

Notes:

- (a) The provision for purchase of petroleum products referred to in item 1 of Section 2.2.2(a) of this Circular reflects the cost incurred or to be incurred by Shell Malaysia Trading Sendirian Berhad to purchase petroleum products from the market in the event that HRC is unable to supply the requisite amount. This is an existing and ongoing RRPT which was previously aggregated as part of the sale of petroleum products in past mandates. As such, the introduction of this item does not reflect a new RRPT but serves the purpose of providing further clarity and transparency on the nature of such transactions to our shareholders.
- (b) No renewal of shareholders' mandate will be sought for item 1 of Section 2.2.2(a) in respect of provision of central management and administrative services by Shell Malaysia Trading Sendirian Berhad to HRC and the purchase of lubricants by HRC from Shell Malaysia Trading Sendirian Berhad.
- (c) No renewal of shareholders' mandate will be sought for items 4,8,9,10,11, 12 and 13 of Section 2.2.2(a).

(b) Proposed New Shareholders' Mandate

The following new RRPT are anticipated to be entered into by the Company with the Related Parties in the ordinary course of business under the Proposed New Shareholders' Mandate. Master framework agreements between the Company and the Related Parties are currently being developed to govern the RRPT.

Transacting Party		Nature of Transaction	Estimated value under the Existing Shareholders' Mandate (RM)	Actual value from 26/05/2016 (the date of last AGM) to LPD (RM)	Estimated value* from 24/05/2017 (the date of this AGM) to the date of the Fifty-Ninth AGM (RM)
1.	Shandong Hengyuan Petrochemical Company Limited	Sale of petroleum products by HRC to SHPCL	Nil	Nil	490,000,000
		Purchase of Petroleum Products by HRC from SHPCL	Nil	Nil	490,000,000
2.	Malaysia Hengyuan International Limited	Provision of central management, business support and administrative services by MHIL to HRC	Nil	Nil	7,000,000
		Provision of technical advisory and consultancy services and research and development advisory services by MHIL to HRC	Nil	Nil	16,400,000
3.	Mercuria Energy Trading Pte Ltd	Purchase of crude oil and petroleum products by HRC from Mercuria Singapore	Nil	Nil	4,000,000,000
		Sale of petroleum products by HRC to Mercuria Singapore			
4.	Shell Global Solutions International B.V.	Provision of licensing and project design services and catalyst supply by Shell Global Solutions International B.V. to HRC	Nil	Nil	45,000,000
TOTAL			0	0	5,048,400,000

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 2017-2018. 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.

2.2.3 *Amount Due and Owning to the Company by Related Parties*

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

2.3 RATIONALE AND BENEFITS OF TRANSACTING WITH THE RELATED PARTIES

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 these 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. The Related Parties under this category are involved in activities of a complementary nature, which consist primarily of the trading, supply and distribution of crude oil and petroleum products on a large scale. It is therefore in the interests of the Company to transact with these Related Parties 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 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 the Company being 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 of Directors is seeking approval from the shareholders for the Proposed 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 the Related Parties 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 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 the Related Parties 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 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 Contract Board would 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 Contract Board 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 of Directors. The threshold for RRPT that requires the Company's Contract Board approval is RM200,000 and above, and these RRPT will be tracked regularly. In addition to this, post this Circular, any non-mandated transaction with a Related Party that equals or exceeds 1% of the Company's net assets will be reviewed and approved by the Board of Directors.
- 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 Audit Committee.
- The Board and the 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 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 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 the Recurrent Transactions made; and
- (b) the names of the Related Parties involved in each type of the Recurrent Transactions 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 2016 which was approved by the Board of Directors on 14 April 2017.

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 Shareholders' Mandate pertaining to the Recurrent Related Party Transactions, save and except for the following:-

- (i) Shell Overseas Holdings Limited, a Major Shareholder holding 51% equity interest in the Company up until 22 December 2016, is an indirect wholly-owned Affiliate of Royal Dutch Shell plc and is deemed interested in the Proposed Shareholders' Mandate ^(a).
- (ii) En Amir Hamzah bin Abu Bakar, Datuk Iain John Lo and Mr. Michael John Carey are the nominee directors of Shell Overseas Holdings Limited in the Company who resigned on 22 December 2016. As such, for the period up until 22 December 2016, they are deemed interested in the Proposed Shareholders' Mandate in respect of Recurrent Related Party Transactions to be entered with the Shell Group as these Directors are acting representatives of Shell Overseas Holdings Limited which is the Major Shareholder ^(b) of the Company.
- (iii) MHIL, a Major Shareholder holding 51.02% equity interest in the Company since 22 December 2016, is deemed interested in the Proposed Shareholders' Mandate.
- (iv) SHPCL, who has an indirect interest in the Company via its wholly-owned subsidiary, Heng Yuan Holdings Limited, and Heng Yuan Holdings Limited's wholly owned subsidiary, MHIL (a Major Shareholder of HRC), is deemed interested in the Proposed Shareholders' Mandate.
- (v) Mr. Wang, YouDe, Mr. Wang, ZongQuan, Mr. Martinus Joseph Marinus Aloysius Stals and Mr. Sun, Jian Yun are the nominee directors of MHIL and were appointed as directors of the Company on 22 December 2016. As such, they are deemed interested in the Proposed Shareholders' Mandate in respect of RRPT to be entered into with MHIL, who is the Major Shareholder of HRC, and SHPCL, who has an indirect interest in MHIL and the Company.
- (vi) Mr. Martinus Joseph Marinus Aloysius Stals, the managing director of HRC, an employee of Shell Global Solutions (Malaysia) Sdn. Bhd., is seconded to the Company. Shell Global Solutions (Malaysia) Sdn. Bhd. and companies in the Shell Group have a common ultimate holding company, which is Royal Dutch Shell plc. As such, Mr. Martinus Joseph Marinus Aloysius Stals is deemed interested in the Proposed Shareholders' Mandate in respect of RRPT to be entered into with the Shell Group.
- (vii) Mr. Sun, JianYun, a non-executive director of HRC, is an employee of Mercuria China. Mercuria China and Mercuria Singapore are both indirect wholly owned subsidiaries of Mercuria Energy Group Limited. As such, Mr. Sun, JianYu is deemed interested in the Proposed Shareholders' Mandate in respect of RRPT to be entered into with Mercuria Singapore.

The interested Directors will abstain from voting on the ordinary resolution approving the Proposed 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 Shareholders' Mandate at the forthcoming EGM.

Save as disclosed below, as at 31 March 2017, none of the interested Directors, interested Major Shareholders and/or persons connected to them have any direct or indirect shareholdings in the Company:-

<u>Interested Major Shareholders</u>	<u>Direct Interest</u>	<u>%</u>	<u>Indirect Interest</u>	<u>%</u>
MHIL	153,069,002	51.02	-	-
Heng Yuan Holdings Limited	-	-	153,069,002	51.02
SHPCL	-	-	153,069,002	51.02

Notes

- (a) Shell Overseas Holdings Limited ceased to hold equity in the Company on 22 December 2016. Under the Listing Requirements, Shell Overseas Holdings Limited will continue to be considered as an interested Major Shareholder in respect of any transactions with the Shell Group for six (6) months up until 22 June 2017.
- (b) Please refer to note (a) above.

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 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 Shareholders' Mandate at the forthcoming EGM.

En Amir Hamzah bin Abu Bakar, Datuk Iain John Lo and Mr. Michael John Carey as interested Directors have abstained from deliberations of and voting at the Board in respect of all Recurrent Related Party Transactions in which they were deemed interested.

Mr. Wang, YouDe, Mr. Wang, ZongQuan, Mr. Martinus Joseph Marinus Aloysius Stals and Mr. Sun, JianYun as interested Directors have abstained and shall continue to abstain from deliberations of and voting at the Board in respect of all Recurrent Related Party Transactions in which they are deemed interested.

2.6 STATEMENT BY THE AUDIT COMMITTEE

The 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 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 committee or the Management of the Company.

The Audit Committee has reviewed this Circular, and any member of the Audit Committee may as he deems fit, request for additional information pertaining to the transaction including independent sources or advisers.

2.7 CONDITIONS OF THE PROPOSED SHAREHOLDERS' MANDATE

The Proposed 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 of Directors excluding Mr. Wang, YouDe, Mr. Wang, ZongQuan, Mr. Martinus Joseph Marinus Aloysius Stals and Mr. Sun, JianYun being the interested directors, having considered the rationale and benefits of the Proposed Shareholders' Mandate, is of the opinion that the Proposed Shareholders' Mandate is in the best interest of the Company and its shareholders.

Accordingly, your Board of Directors excluding Mr. Wang, YouDe, Mr. Wang, ZongQuan, Mr. Martinus Joseph Marinus Aloysius Stals and Mr. Sun, JianYun being the interested directors, recommend that shareholders vote in favour of the resolution pertaining to the Proposed Shareholders' Mandate to be tabled at the forthcoming EGM.

4. EGM

The ordinary resolution to vote on the Proposed Shareholders' Mandate is set out in the Notice attached to this Circular. The EGM will be held at Nexus Ballroom 1 & 2, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Wednesday, 24 May 2017 at 3.30 p.m. or immediately upon the conclusion, or the adjournment of our Fifty-Eight Annual General Meeting (as the case may be) which will be held at the same venue on the same day at 2.30 p.m. or any adjournment of the EGM, whichever is later, to consider the abovementioned proposals.

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 forty-eight (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

(F.K.A. SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD)

DATUK YVONNE CHIA

Audit Committee Chairman

Independent Non-Executive Director

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FURTHER INFORMATION

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 2015 and 31 December 2016.

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