

A NEW ERA



2016 ANNUAL REPORT

Hengyuan Refining Company Berhad

(Formerly known as Shell Refining Company (Federation of Malaya) Berhad)
(No. 3926-U)



**A NEW
HORIZON OF
GROWTH
AWAITS US
ALL**

**EMERGENCY POWER
AND EYE WASH**
SEE PIPES FOR DIRECTION
AND HOW TO USE





**FUELLED BY
ENHANCED
STRENGTH AND
SUPPORT**



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Hengyuan Refining Company Berhad (3926-U)

Formerly known as SHELL REFINING COMPANY (FDM) BERHAD

HSSE Excellence is our Passion



COMMITMENT TO GO THE DISTANCE IN MEETING LONG-TERM GOALS

Leveraging on SHPC's resources and technical expertise, HRC is in a stronger position today to build a sustainable future by meeting evolving product quality specifications such as Euro 4M Mogas and Euro 5 compliant products.

SHANDONG HENGYUAN PETROCHEMICAL COMPANY LIMITED

Shandong Hengyuan Group's first Oil & Gas Investment in Malaysia

Incorporated in 1970, Shandong Hengyuan Petrochemical Group Company Limited (SHPGC) is a state-owned enterprise based in Linyi County, Shandong Province, the People's Republic of China.

SHPGC is the ultimate controlling shareholder of Shandong Hengyuan Petrochemical Company Limited (SHPC), which in turn is the indirect parent company of Malaysia Hengyuan International Limited (MHIL), the majority shareholder of Hengyuan Refining Company Berhad (HRC).

SHPC, incorporated in 1997, operates an independent oil refinery in Linyi County situated in the Shandong Province. Ranked No. 7 among refining companies in that province, it has a production capacity of 12 million tons per year.

SHPC manufactures petrochemicals (including Euro 5 grade diesel) as well as develops, produces, processes and markets diesel oil, liquid gas, propylene, propane, polypropylene, tert-butyl alcohol, oil slurry, asphalt, tert-pentene, ethylbenzene and other petroleum related products.

SHPGC recognises HRC's business as complementary to its existing business portfolio and enables the Group to establish a strategic presence in Southeast Asia.

The completion of the acquisition of a 51.0% equity stake in HRC via MHIL in December 2016, marks the dawn of a new era for HRC. The natural synergy within the Group, which is equipped with the latest production technologies and know-how, will only serve to further enhance HRC's profitability and continue to strengthen its position as a leading regional refinery products supplier.



Chairman of HRC, Wang, YouDe, signing on a plaque marking the official Handover from Shell to Hengyuan at the Refinery on 6 Jan 2017.

LOGO RATIONALE



Hengyuan Refining Company Berhad now adopts the logo of its holding company. This logo is a meaningful symbol of sustained excellence and strength.

The triangle outline of our logo represents the Tai mountain in Shandong, where Confucius used to meditate. This symbol of power is complemented by calm, collective wisdom, depicted by the colour blue.

The solid black triangle within this logo denotes growth in the oil and gas industry, while the stylized 'S' in red, speaks of the challenging road to the top and is reminiscent of a sprinting athlete always inspired to win the race. The colour red also depicts the passion that will drive us to keep persevering and deliver distinctive performance.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Wang, YouDe

Chairman

Non-Independent Non-Executive Director

Martinus Joseph Marinus Aloysius Stals

Managing Director and Executive Director

Dato' Seri Talaat bin Haji Husain

DDSA, SPMP, DPCM, DPMP, JSD, PJK, PJM

Senior Independent Non-Executive Director

Datuk Yvonne Chia

DPMVV

Independent Non-Executive Director

Datuk Zainun Aishah binti Ahmad

KMN, PMP, DPMP, JSM, PJN

Independent Non-Executive Director

Heng Heyok Chiang @ Heng Hock Cheng

Independent Non-Executive Director

David Lau Nai Pek

Independent Non-Executive Director

Wang, ZongQuan

Non-Independent Non-Executive Director

Sun, JianYun

Non-Independent Non-Executive Director

BOARD AUDIT COMMITTEE

1. Datuk Yvonne Chia (Chairman)
2. Dato' Seri Talaat bin Haji Husain
3. Datuk Zainun Aishah binti Ahmad
4. David Lau Nai Pek
5. Heng Heyok Chiang @ Heng Hock Cheng

NOMINATING COMMITTEE

1. Dato' Seri Talaat bin Haji Husain (Chairman)
2. Datuk Zainun Aishah binti Ahmad
3. Wang, YouDe

REMUNERATION COMMITTEE

1. Datuk Zainun Aishah binti Ahmad (Chairman)
2. Dato' Seri Talaat bin Haji Husain
3. Wang, YouDe

SECRETARIES

Lim Hooi Mooi

(MAICSA 0799764)

Ong Wai Leng

(MAICSA 7065544)

AUDITORS

Messrs. PricewaterhouseCoopers

1 Sentral, Jalan Rakyat

Kuala Lumpur Sentral

P.O. Box 10192

50706 Kuala Lumpur

Tel : 03-2173 1188

Fax : 03-2173 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 : 03-2783 9299

Fax : 03-2783 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 : IND-PROD

(Industrial Products)

REGISTERED OFFICE

Unit 30-01, Level 30, Tower A

Vertical Business Suite

Avenue 3, Bangsar South

No. 8, Jalan Kerinchi

59200 Kuala Lumpur

Tel : 03-2783 9191

Fax : 03-2783 9111

BUSINESS ADDRESS

Batu 1, Jalan Pantai

71000 Port Dickson

Negeri Sembilan

Tel : 06-647 1311

Fax : 06-647 4622

GENERAL BUSINESS PRINCIPLES

PRINCIPLE 1: ECONOMIC

Long-term profitability is essential to achieve our business goals and to assure our continued growth. It is a measure both of efficiency and of the value that customers place on Hengyuan Refining Company (HRC)'s products and services. It supplies 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.

PRINCIPLE 2: 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.

PRINCIPLE 3: BUSINESS INTEGRITY

HRC insist on honesty, integrity and fairness in all aspects of our business and expect 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 company business. Employees must also declare to their employing company 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 procedures and are subject to audit and disclosure.

PRINCIPLE 4: POLITICAL ACTIVITIES

A. Of company

HRC acts in a socially responsible manner within the laws of the countries in which we operate 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. However, 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 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 in the light of local circumstances.

PRINCIPLE 5: HEALTH, SAFETY, SECURITY AND THE ENVIRONMENT

HRC has a systematic approach to health, safety, security and environmental management in order to achieve continuous performance improvement. To this end, HRC manages 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 the environmental impact of our operations, products and services.

PRINCIPLE 6: LOCAL COMMUNITIES

HRC aims to be a good neighbour by continuously improving the ways in which we contribute directly or indirectly to the general wellbeing of the communities within which we work. We manage the social impact of our business activities carefully and work with others to enhance the benefits to local communities, and to mitigate any negative impact from our activities. In addition, HRC takes a constructive interest in societal matters directly or indirectly related to our business.

PRINCIPLE 7: COMMUNICATION AND ENGAGEMENT

HRC recognises that regular dialogue and engagement with our stakeholders is essential. We are committed to report 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.

PRINCIPLE 8: COMPLIANCE

We comply with all applicable laws and regulations of the countries in which we operate.

FINANCIAL CALENDAR

2016

| | |
|-------------|---|
| 9 MAY | Unaudited financial results for the 1 st quarter ended 31 March 2016 |
| 26 MAY | 57 th Annual General Meeting |
| 25 AUGUST | Unaudited financial results for the 2 nd quarter ended 30 June 2016 |
| 30 NOVEMBER | Unaudited financial results for the 3 rd quarter ended 30 September 2016 |

2017

| | |
|-------------|--|
| 28 FEBRUARY | Unaudited financial results for the 4 th quarter ended 31 December 2016 |
| 28 APRIL | Notice of 58 th Annual General Meeting |
| 24 MAY | 58 th Annual General Meeting |

NOTICE OF THE 58TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Fifty-Eighth Annual General Meeting of Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) ("the Company") will be held at Ballroom 1 & 2, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Wednesday, 24 May 2017 at 2.30 p.m. for the following purposes:

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2016 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(9) of the Constitution of the Company, and who being eligible, have offered themselves for re-election:-
 - (i) Mr Wang, YouDe (Ordinary Resolution 1)
 - (ii) Mr Wang, ZongQuan (Ordinary Resolution 2)
 - (iii) Mr Sun, JianYun (Ordinary Resolution 3)
 - (iv) Mr Martinus Joseph Marinus Aloysius Stals (Ordinary Resolution 4)
3. To re-elect Dato' Seri Talaat bin Haji Husain who is retiring in accordance with Article 81(3) of the Constitution of the Company, and who being eligible, has offered himself for re-election. (Ordinary Resolution 5)
Please refer to Explanatory Note (d)
4. To re-appoint Messrs. PricewaterhouseCoopers as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration. (Ordinary Resolution 6)

SPECIAL BUSINESS

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

5. To approve payment of non-executive Directors' fees and benefits of up to RM1,400,000 for the period from 1 January 2017 to 30 June 2018. (Ordinary Resolution 7)
6. **Retention of Independent Director in accordance with Recommendation 3.3 of the Malaysian Code on Corporate Governance 2012** (Ordinary Resolution 8)

"**THAT** Dato' Seri Talaat bin Haji Husain, an Independent Non-Executive Director who has served in the Company for more than nine (9) years be hereby retained as an Independent Non-Executive Director and to hold office until the next Annual General Meeting."

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

(Ordinary Resolution 9)

"THAT subject to Bursa Malaysia Securities Berhad Main Market 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 of the Circular to the Shareholders dated 28 April 2017 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 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:

- (i) the conclusion of the next Annual General Meeting (AGM) of the Company at which this shareholders' mandate will lapse, unless by a resolution passed at the next AGM, the mandate is renewed;
- (ii) the expiration of the period within which the next AGM is required to be held pursuant to Section 340(2) of the Companies Act, 2016 (the Act) (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (iii) 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. To transact any other business of the Company of which due notice shall have been given.

BY ORDER OF THE BOARD

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

Dated this 28th day of April, 2017
Kuala Lumpur

NOTICE OF THE 58TH ANNUAL GENERAL MEETING (continued)

NOTES:-

1. Pursuant to Article 72 of the Constitution of the Company, a Member of the Company or an authorised nominee who is entitled to attend and vote at the meeting may appoint **ONLY ONE** (1) proxy to attend, vote and speak instead of the Member at the Meeting.
2. Where a Member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account ("Omnibus Account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.
3. A proxy need not be a Member of the Company. There shall be no restriction as to the qualification of the proxy.
4. 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.
5. The signature to the instrument appointing a proxy or proxies executed outside Malaysia must be attested by a solicitor, notary public, consul or magistrate.
6. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or notarised must be deposited at the Company's Share Registrar's Office situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the Meeting or adjourned meeting.
7. Only an **original** proxy form deposited at Tricor Investor & Issuing House Services Sdn Bhd, will entitle the proxy holder to attend and vote at the Meeting. **Photocopies of proxy form will not be accepted** for the purposes of the Meeting. Additional original proxy forms are available to Members upon request in writing to the Company.
8. The Date of Record of Depositors for the purpose of determining Members' entitlement to attend, vote and speak at the Meeting is 17 May 2017.

Explanatory Notes:

- a. Agenda No. 1
This item is meant for discussion only. The provisions of Section 340(1)(a) of the Companies Act 2016 require that the audited financial statements and the Reports of the Directors and Auditors thereon be laid before the Company at its Annual General Meeting. As such, this Agenda item is not a business which requires a resolution to be put to vote by shareholders.
- b. Ordinary Resolutions No. 1 to 4
This item is to re-elect directors retiring pursuant to Article 81(9) of the Constitution of the Company, which require a Director appointed by the Board to fill any casual vacancy during the year to retain his office only until the next following Annual General Meeting, but shall be eligible for re-election.
- c. Ordinary Resolution No. 5
This item is to re-elect Dato' Seri Talaat bin Haji Husain retiring by rotation pursuant to 81(3) of the Constitution of the Company and shall be eligible for re-election.
- d. Mr David Lau Nai Pek who retires pursuant to 81(3) of the Constitution of the Company, has indicated to the Company that he would not seek re-election at the Fifty-Eighth Annual General Meeting of the Company. Therefore, Mr David Lau Nai Pek shall cease to be a Director of the Company at the conclusion of the Fifty-Eighth Annual General Meeting.
- e. Ordinary Resolution No. 6
This item is to re-appoint Auditors of the Company pursuant to Section 271(1) of the Companies Act 2016 and Article 127 of the Constitution of the Company.

f. Ordinary Resolution No. 7

This resolution is to facilitate payment of non-executive Directors' fees and benefits on current financial year basis until the conclusion of the Company's next Annual General Meeting in 2018. 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 Annual General Meeting for additional fees to meet the shortfall.

Directors' benefits include meeting allowances payable to Directors and in determining the estimated total the Board had considered the expected number of scheduled meetings for the Board and Board Committees, and covers the period from 1 January 2017 to 30 June 2018 (the due date for which the next AGM should be held).

g. Ordinary Resolution No. 8

This item is tabled pursuant to Recommendation 3.3 of the Malaysian Code of Corporate Governance 2012.

Dato' Seri Talaat bin Haji Husain is an Independent Non-Executive Director of the Company, has served the Company for a cumulative term of more than 9 years. The Nominating Committee and Board of Directors had assessed his independence and has recommended that he be retained as Independent Non-Executive Director of the Company based on the following justifications:-

- (i) Dato' Seri Talaat satisfies the definition of an independent director as set out in the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and would be able to exercise independent judgement and act in the best interest of the Company;
- (ii) Dato' Seri Talaat's expertise and vast experience in various industries provides the Board with the diversity that enhances the skills and experience profile of the Board;
- (iii) Through Dato' Seri Talaat's qualification and his accumulative knowledge of the Company's business and operations, he has made and continues to make valuable contributions through his role as Chairman of the Nominating Committee and his roles on the Remuneration and Audit Committees.
- (iv) Dato' Seri Talaat has exercised care as an Independent Director of the Company and carried out his professional and fiduciaries duties in the interest of Company and its shareholders at all times.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

There is no person seeking election as Director of the Company at this Annual General Meeting.



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|--|--|--|--|--|
| | | | | CONTACT NUMBERS Fire: 999 Police: 999 Ambulance: 999 Site Manager: 011-222-2222 Safety Officer: 011-222-2222 HSE Department: 011-222-2222 Emergency Services: 011-222-2222 |
| | | | | |
| | | | | |
| | | | | |
| | | | | SAFETY INFORMATION This area is a high-risk zone. All personnel must wear appropriate PPE and follow safety protocols. No unauthorized access is permitted. |



LEADERSHIP CONTINUITY TO RISE ABOVE CHALLENGES

HRC is guided by SHPC's 3 principles of no change providing continuity of the Culture, the Leadership team as well as the Salary and Benefits, while pursuing improvements in the best interest of our staff and Company.

BOARD OF DIRECTORS' PROFILE



WANG, YOUDE

Chairman
Non-Independent Non-Executive Director

Wang, YouDe, Chinese, male, aged 54, was appointed as a Director of our Company on 22 December 2016.

He holds a Masters Degree in Business Management from Nankai University, Tianjin, China.

He was appointed as Chairman of the Board and General Manager of Shandong Hengyuan Petrochemical Company Limited since March 2001 while holding an appointment as the Deputy Mayor of Linyi County.

Since August 2007, Mr Wang has held the position of Vice President in the China Chamber of Commerce for the Petroleum Industry. In 2013, he was elected to be one of the representatives of the 12th National People's Congress of the People's Republic of China.

He has no family relationship with any other Director and/or major shareholder of our Company. He has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

MARTINUS JOSEPH MARINUS ALOYSIUS STALS

Managing Director and Executive Director

Martinus Joseph Marinus Aloysius Stals or in short Maarten Stals, Dutch, male, aged 50, was appointed as Managing Director of our Company on 22 December 2016.

He graduated from the Technical University of Eindhoven holding a Bachelor of Science Degree in Chemical Engineering (1990).

Maarten joined Shell upon graduation in 1990 and has held multiple jobs in technology and operations over the last 26 years in Shell across the world. Most recently he was involved in the detailed design, construction, commissioning and initial operation as Production Unit Manager of the Pearl GTL complex in Qatar, developed on the basis of the successes of Shell's Bintulu facility. He joined Shell Refining Company (FOM) Berhad (SRC) at the end of 2014 as our Chief Operating Officer, timely for the 2015 major turnaround.

Maarten has been appointed by SHPC, as a secondee from Shell, to lead HRC in ensuring a smooth transition, achieving compliance with new fuel specifications and setting the path for future growth.

He has no family relationship with any Director and/or major shareholder of our Company. Maarten does not have access to Shell's intellectual property and commercial and business processes, to avoid any anti-trust issues or conflict of interest with our Company. He has not been charged for any offense within the past 10 years.



BOARD OF DIRECTORS' PROFILE



DATO' SERI TALAAT BIN HAJI HUSAIN

DDSA, SPMP, DPCM, DPMP, JSD, PJK, PJM
Senior Independent Non-Executive Director

Dato' Seri Talaat bin Haji Husain, Malaysian, male, aged 66, was appointed a Director of our Company on 1 June 2007.

He graduated from Universiti Sains Malaysia with a degree in Social Sciences and later went to Cornell University, USA for his Masters in International Planning. He also attended the Senior Executive Programmes at London Business School and Harvard Business School.

He served the Malaysian Government for 34 years in various positions. Since his first appointment in Penang in 1973, he had served in the Prime Minister's Department, National Institute for Public Administration, the National Palace, the Ministry of Education and as the Mayor of Ipoh City. Before retiring, he held the positions of Secretary General of the Ministry of Youth and Sports and the Ministry of Domestic Trade and Consumer Affairs. During his tenure in the Government, he held the positions of Chairman of Companies Commission of Malaysia and as a Board Member of Malaysian Intellectual Property Corporation and Sepang International Circuit.

He is currently the Chairman in another public company namely Mizuho Bank (Malaysia) Berhad. He is also the President of the Outward Bound Council, Malaysia.

He has no family relationship with any other Director and/or major shareholder of our Company. He has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

He attended 6 out of 8 Board meetings held in 2016.

DATUK YVONNE CHIA

DPMW

Fellow Chartered Banker

Chairman of the Audit Committee

Independent Non-Executive Director

Datuk Yvonne Chia, Malaysian, female, aged 64, was appointed a Director of our Company on 13 August 2013 and member of the Audit Committee on 26 February 2014. She was appointed as the Chairman of the Audit Committee on 25 February 2016.

She holds a Bachelor of Economics (Honours) from the University of Malaya. She has over 30 years of experience in the financial services industry, having held leading positions in both global and domestic banks in Malaysia and the region. She started her career in Bank of America and has held various roles in Asia. She was the former Group Managing Director and Chief Executive of RHB Bank Berhad (1996-2002) and Hong Leong Bank Berhad (2003-2013).

She is Chairman and Independent Non-Executive Director of Standard Chartered Bank Malaysia Berhad and Standard Chartered Saadiq Berhad, an Independent Non-Executive Director for Astro Malaysia Holdings Berhad (listed on Bursa Malaysia) and Silverlake Axis Limited (listed on SGX). She is a Council Member of the Asian Institute of Chartered Bankers, a Trustee for Teach for Malaysia Foundation and an Honorary Professor of the University of Nottingham, Malaysia School of Economics.

She has no family relationship with any other Director and/or major shareholder of our Company. She has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

She attended all the Board meetings and all the AC meetings held in 2016.



BOARD OF DIRECTORS' PROFILE



DATUK ZAINUN AISHAH BINTI AHMAD

KMN, PMP, DPMP, JSM, PJN
Independent Non-Executive Director

Datuk Zainun Aishah binti Ahmad, Malaysian, female, aged 70, was appointed a Director of our Company on 1 June 2010.

She graduated from Universiti Malaya with an Honours Degree in Economics. Datuk Zainun began her career with Malaysian Industrial Development Authority (MIDA), the Malaysian government's principal agency for the promotion and coordination of industrial development in the country where she worked for 35 years. In her years of service, She held various key positions in MIDA as well as in some of the country's strategic councils, notably her pivotal role as National Project Director in the formulation of Malaysia's first Industrial Master Plan. She was the Director General of MIDA for 9 years after being the Deputy Director General for 11 years.

She was a Director of Tenaga Nasional Berhad, Kulim Hi-Tech Park and Malayan Banking Berhad. Currently, she is a Director in four other public listed companies namely DeGem Berhad, Scomi Engineering Bhd, Berjaya Food Bhd, and British American Tobacco (Malaysia) Berhad.

She has no family relationship with any other Director and/or major shareholder of our Company. She has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

She attended 7 out of 8 Board meetings held in 2016.

HENG HEYOK CHIANG @ HENG HOCK CHENG

Independent Non-Executive Director

Heng Hock Cheng, Malaysian, male, aged 67, was appointed as a Director of our Company on 1 April 2016.

He holds a Bachelor of Science (Honours) Degree in Chemical Engineering from the University of Birmingham, United Kingdom in 1972.

He retired from Shell in October 2006 after 34 years of service, spanning Upstream, Downstream and Gas & Power divisions. He had served with various Shell entities in Malaysia, United Kingdom, the Netherlands and China, holding positions, amongst others, as Manufacturing Superintendent of Lutong Refinery, Engineering Manager, Technical Director of Sarawak Shell Berhad/Sabah Shell Petroleum Co. Ltd., Managing Director of Shell Gas & Power Malaysia and Chairman of Shell China based in Beijing.

He is an Independent Director of Petronas Gas Berhad, a Malaysian public listed company and a Director of AET Tanker Holdings Sdn Bhd, and two of its subsidiaries. He is also a member of the Audit committee and Nominating & Remuneration committees of Petronas Gas Bhd and Chairman of the Audit and Risk Management Committee of AET Tanker Holdings Sdn Bhd.

He has no family relationship with any other Director and/or major shareholder of our Company. He has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

He has attended all Board meetings in 2016 since his appointment as Director of our Company on 1 April 2016.



BOARD OF DIRECTORS' PROFILE



DAVID LAU NAI PEK

Independent Non-Executive Director

David Lau Nai Pek, Malaysian, male, aged 64, retired from Shell Malaysia in August 2011 after serving the Shell Group for 30 years in various locations and business segments of the Group. He was appointed a Director of our Company on 8 May 2009 and was re-designated to Independent Non-Executive Director on 26 February 2014.

He holds a Bachelor of Commerce from the University of Canterbury, New Zealand. He is a member of the Malaysian Institute of Accountants and also a member of the Chartered Accountants Australia and New Zealand.

He has led financial organisations in Shell businesses in Australia, Brunei, China, Malaysia, New Zealand, the Netherlands and the United Kingdom. His notable assignments include his role as the Finance Director for Shell Malaysia, Finance Director for Shell China, Global Controller for the Exploration & Production business segment for consistency of Shell and Vice President Finance for Shell International Exploration and Production B.V., the Netherlands.

He is currently an Independent Non-Executive Director and Chairman of the Audit Committee of Axiata Group Berhad, and an Independent Non-Executive Director of KKB Engineering Berhad; all public listed companies. He is also sits on the Boards of four other non-listed companies, of which three are companies within the Axiata Group Berhad group of companies, and the other being Malaysia Airlines Berhad (formerly known as Malaysian Airline System Berhad). He is also a member of the Investment Panel of the Malaysian Employees Provident Fund.

He has no family relationship with any other Director and/or major shareholder of our Company. He has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

He attended 7 out of 8 Board meetings held in 2016.

WANG, ZONGQUAN

Non-Independent Non-Executive Director

Wang, ZongQuan, Chinese, male, aged 54, was appointed as a Director of our Company on 22 December 2016.

He graduated with a degree in Chemical Machinery from Chengdu Institute of Water Conservancy and Hydropower Survey and Design in 1988.

He was appointed as the Deputy General Manager of Shandong Hengyuan Petrochemical Company Limited in April 2002. Prior to this appointment, he had 14 years of experience in refining, units installation and management departments of the petrochemical business. He headed the Equipment Control department of an installation engineering company from 1988 to 2002.

He has no family relationship with any other Director and/or major shareholder of our Company. He has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.



BOARD OF DIRECTORS' PROFILE



SUN, JIANYUN

Non-Independent Non-Executive Director

Sun, JianYun, Chinese, male, aged 33, was appointed as a Director of our Company on 22 December 2016.

He holds a Master of Science Degree in Economics from Peking University, China, and a Bachelor of Science Degree in Economics and Statistics from the same University.

He is currently the Chief Investment Officer – Asia for Mercuria Energy Group Limited, a leading global commodities trading company. Before joining Mercuria, he served as an Associate Director in the Natural Resources Division of the Investment Banking Department of the Bank of China International in Hong Kong. He started his career as a management consultant with McKinsey & Company in Corporate Finance.

He has no family relationship with any other Director and/or major shareholder of our Company. He has no conflict of interest with our Company and has not been charged for any offence within the past 10 years.

MANAGEMENT TEAM'S PROFILE

MAARTEN STALS

Managing Director
(Refer to Profile on Page 19)

FOO AI LI

Chief Financial Officer

A Malaysian, aged 41, Ai Li joined Shell in 2002 after 3 years of external audit experience. She holds a Degree in Accounting and is a Chartered Accountant (NZ) as well as a member of the Malaysia Institute of Accountants. Ai Li has 6 years of regional treasury experience and 5 years of statutory reporting, hydrocarbon management and information management experience. She has also held a global role overseeing 300 staff in Shell's finance operations managing billing for Shell Group. From 2014, she was the General Manager, Finance in Shell MDS Sdn Bhd overseeing the finance functions covering manufacturing and marketing. Ai Li returned to the Company in April 2016 as the Finance Manager, and accepted the CFO role in February 2017.

JOHAN BIN JAINUDIN

Senior Manager, Technology

A Malaysian, aged 39, Johan has 18 years of experience in the oil and gas industry. He holds a Degree in Chemical Engineering and is a Chartered Engineer (Institution of Chemical Engineers and Engineering Council UK). Johan started his career with PETRONAS in 1999 and has 16 years of experience in refining with various roles in technical services, production and project design and commissioning. He also held a strategic planning role for 2 years where he worked on group-level strategy projects. Johan accepted his current role as the Company's Technology Senior Manager in February 2012.

ZULHAZMI BIN MOHAMAD

Senior Manager, Engineering

A Malaysian, aged 46, Zulhazmi joined Shell in 1994. He holds a Bachelor of Electrical Engineering (Hons) from the University of Southampton, UK. Zulhazmi has held multiple jobs in projects, engineering and maintenance over the last 23 years in Shell, including the detailed design and construction of state-of-the-art Long Residue Catalytic Converter Unit (LRCCU) project. Most recently he was involved in the design, construction, commissioning and start-up of HIJAU complex for the Company in Port Dickson. He accepted his current role as the Company's Engineering Senior Manager in November 2011.

ZACKARIA BIN ABDULAH

Manager, Quality and HSSE

A Malaysian, aged 37, Zackaria joined Shell in 2012. He holds a Bachelor of Environmental Sciences & Management (Hons) from the University of Malaya and is a certified ISO 14001 Lead Auditor by IRCA. Zackaria has close to 14 years of experience in the field of HSSE and Quality Assurance, with expertise in HSSE regulatory compliance, management systems, incident investigation and emergency response. Prior to joining Shell, he had served with Schlumberger, BP, Accenture and Dutch Lady in various capacities, including senior roles at site level, corporate and consulting. Zackaria accepted his current role as the Company's Quality and HSSE Manager in November 2012.

SHALINA BINTI SABTU

Manager, Human Resource

A Malaysian, aged 44, Shalina joined Shell Malaysia in 1996 as an IT Executive. She holds a Bachelor of Management Information Systems (Hons) from Leeds University, UK. Shalina's career in Human Resource began when she took on the role as the Local Services Manager, responsible for setting up the HR Shared Services Centre in Kuala Lumpur, managing local services that cover remuneration and benefits for the whole of Shell Malaysia. She subsequently joined Shell Malaysia's Enhanced Oil Recovery Centre as the HR Account Manager, and later accepted the HR Manager role with the Company in December 2015.

SUDHAKARAN AYYAPPAN

Manager, Contracts and Procurement

A Malaysian, aged 53, Sudhakaran joined Shell in 1990. He began his career as a Lab Analyst at the Luboil Blending Plant. After 6 years, he was made Senior Operations Superintendent and was part of the successful LRCCU start-up team. In 2003, he served in the Contracts and Procurement team overseeing the implementation and improvement of turnaround and maintenance contracts. In 2012, he was made Regional Procurement Manager for Equipment Category overseeing Shell Manufacturing East Sites in Malaysia, Singapore and the Philippines. Sudhakaran accepted his current role as the Company's Contracts and Procurement Manager in June 2016.

MANAGEMENT



ZULHAZMI BIN MOHAMAD

JOHAN BIN JAINUDIN

ZACKARIA BIN ABDULAH

FOO AI LI

TEAM



MAARTEN STALS



SUDHAKARAN AYYAPPAN



SHALINA BINTI SABTU



A low-angle photograph of a worker in a red safety suit and white hard hat climbing a metal staircase. The worker is looking upwards. The background shows industrial structures, including a large white cylindrical tank and a metal roof structure. A large, dark blue, semi-transparent geometric shape is overlaid on the right side of the image, containing the text.

SUSTAINING SAFETY AND RELIABILITY IN OUR OPERATIONS

HRC is committed to maintain our legacy as an industry leader that delivers high health, safety, security and environmental (HSSE) performance through constant focus on a Goal Zero mindset.

CHAIRMAN'S STATEMENT

A portrait of Wang YouDe, the Chairman, wearing a dark blue suit, light blue shirt, and patterned tie. He is smiling slightly and has his hands clasped in front of him. The background is a soft, out-of-focus indoor setting with light-colored walls and a chair.

GOING THE DISTANCE

Wang, YouDe
Chairman

Dear Shareholders,

The successful completion of the change in major shareholding of our Company on the 22nd of December 2016 marks a promising beginning for us all. Thanks to the efforts of the Board of Directors, the management team and the staff of our Company, the refinery starts a new lease of life with this landmark event. I take great pleasure in presenting our inaugural annual report as Hengyuan Refining Company Berhad (HRC).

Let me begin by expressing the pride and honour I feel to be part of the great legacy of SRC. I believe the strengths that Shandong Hengyuan Petrochemical Company Limited (SHPC) has to offer will enable our Company to continue to contribute to the economic and social development of Malaysia, while providing further opportunity for a new era of growth.

The acquisition of HRC complements SHPC's existing business portfolio and allows the Group to further expand, increase its asset scale, explore synergies between the Malaysian and Chinese market, and establish a strategic presence in Southeast Asia. SHPC intends to add value to HRC by offering its commercial expertise and technical capabilities in refining, to enhance HRC's business sustainability, profitability and growth over the long-term.

I am also proud to report that a smooth transition has been accomplished as we focused on sustaining business operations with continued employment of all staff and a stable supply of refinery products to the Malaysian market.

POLICY OF NO-CHANGE

We recognise Shell's contribution in building the company to what it is today – well led with highly motivated and competent people. HRC's rich legacy and its dynamic teams are strengths we intend to maintain going forward, which is why this transition is premised on the following 3 principles of "No Change":

1. No change in culture

SHPC respects the work culture and ethics of HRC, and seeks to build on the relationships that have already been forged with the community. Therefore, HRC will continue to uphold our high standards in safety and operations, business integrity, environmental performance and compliance to prevailing regulations, whilst maintaining strong business processes and corporate governance.

2. No change in the leadership team

SHPC admires HRC's dynamic team from diverse cultures and backgrounds. HRC will continue to be operated by a majority Malaysian workforce with no change to the composition of its senior management team. We believe that the current management

team have the best experience and knowledge to continue running our Company and will support them in finding suitable candidates from the global market who will strengthen the Company's leadership and add diversity to the team.

3. No change in salary and benefits

The terms and conditions of staff employment will remain status quo, if not better to reflect the aspirations of growth and profitability of the Company. We aim to continue supporting local employment and grow internal talent.

However, we recognise that terms and conditions will be under regular review as we pursue improvements in line with market developments. Whatever alignments made will be in the best interest of our staff and Company.

With these fundamentals in place, and having refinanced our debts upon share sale completion, we are poised and ready to meet current challenges and leverage on new opportunities.

CHAIRMAN'S STATEMENT

" A smooth transition has been accomplished as we focused on sustaining business operations with continued employment of all staff and a stable supply of refinery products to the Malaysian market."

IDENTIFIED GROWTH AREAS

Moving ahead, we have several immediate key issues to address in the short term. One of the most vital is to meet the upcoming industry requirements for Euro 4M Mogas in 2018 and subsequently the Department of Environment's (DOE) Clean Air Regulations in 2019 and Euro 5 Gasoil in 2020. With SHPC currently already producing to Euro 6 requirements, it will be able to share various learnings and technical capabilities for these HRC product upgrades. Leveraging also on SHPC access to and experience with Chinese patented technology as relevant, we are confident of expediting our upgrade of existing facilities to meet these requirements.

Another key opportunity for HRC as an independent refiner is to strategise and execute effective hedging measures to mitigate current financial risks due to market fluctuations on foreign exchange rate as well as volatility of crude and product prices that affect refining margins and inventory values. Trade facilities with reputable financial and market institutions will be put in place to sustain and stabilise financial performance which in turn will build investor confidence.

The upcoming Turnaround 2018 will be a major event necessary for long-term sustainability as it ensures equipment integrity and assures HRC's license to operate, issued by the Department of Occupational Safety and Health (DOSH). It also presents us an opportunity to meet the aforementioned product upgrade requirements. We target to create tie-ins for these projects during the scheduled turnaround in 2018 such that future shut downs of the plant for these projects can be avoided. This will maximise production and cost efficiency.

Though our priority is to continue to supply to the Malaysian market, we are also evaluating opportunities to enhance the value of several of our intermediate product streams to strengthen our position as a competitive refiner in the region. This means moving products to the right customers at the most suitable price, whilst we exploit the partnership between SHPC and HRC to capitalise on trade benefits between Malaysia and China. In addition, our central location in Asia provides further options to grow the business and diversify our product slate.





DIVIDEND POLICY

The current focus of the management team is to ensure rigorous HSSE compliance and further improve operational and financial reliability in order to capture good refining margins and assure we deliver the market specifications for fuels like Euro 4M Mogas and Euro 5 Gasoil timely. These projects require further reinvestment of profits in the next couple of years. Whilst debt to equity ratio has improved, it is still significant at 1.4x. With further cash demands to service the Company's debt as well as the aforementioned capital expenditure to achieve new fuel specifications compliance, there is a need to ensure the continued sustainability of the Company. As such, we regret we are unable to declare dividends for the year under review. On an annual basis, the Board will continue to review the feasibility of issuing dividends, taking into account the sustainability and solvency of our Company.

MOVING AHEAD

The market for fuels in Malaysia continues to grow and though our Company's performance continues to face macroeconomic challenges, I am confident that HRC is well poised with the right people, culture, technology and funding support to build a sustainable future. What is needed now is foresight in establishing a multiyear strategic plan to capitalise on growth opportunities. This will be our focus in 2017, as our Company continues to meet exacting standards in positioning HRC as a reliable operator and employer, working together with the authorities and respecting and supporting our customers and local communities.

On behalf of the Board, I would like to take this opportunity to express my appreciation to all our valued stakeholders for their continued trust and loyalty, and for being part of HRC's onward journey. My heartfelt gratitude also goes out to the management team and staff for their outstanding commitment and performance, particularly during the long, challenging period of transition and move into a new era. I am confident that HRC has the means and drive to continuously grow and improve its performance with your unwavering support.

Wang, YouDe
Chairman

MANAGING DIRECTOR'S REVIEW

A portrait of Martinus Joseph Marinus Aloysius Stals, a middle-aged man with short hair, wearing a dark suit, light blue shirt, and dark tie. He is smiling and has his hands clasped in front of him. The background is a blurred office setting with a window and a patterned wall.

**FULLY ENGAGED,
ENERGISED AND
COMMITTED**

Martinus Joseph Marinus Aloysius Stals
Managing Director and Executive Director

Dear Shareholders,

It is without a doubt that 2016 was a testing year for HRC. In spite of the uncertainties surrounding our transition process, the macroeconomic environment and the various challenges our Company had to face in order to be able to operate safely and reliably, the management and staff of HRC have remained committed to our organisation and have delivered in a tangible manner.

All the hard work put in during the year proved to be fruitful as we closed the year with positive financial results along with a new major shareholder. We foresee that Shandong Hengyuan Petrochemical Company Limited (SHPC) will turn out to be an ideal partner to HRC and the right coach to help us build and grow this company to greater heights of success. In turn, this will ensure the continued supply of petroleum products to the Malaysian market, increased employment opportunities, continued growth of the Negeri Sembilan economy and eventually, a sound return on your investment as shareholder.

MEETING CHALLENGES WITH POISE AND CONFIDENCE

While a detailed analysis of our performance for 2016 is included in the MD&A section of this annual report, I would like to highlight some key endeavours undertaken during the year that have laid the foundation for future initiatives that can improve the performance of our Company going forward.

In HRC, HSSE always comes first. In 2016, we had a good underlying personal safety performance illustrated by only one single minor first aid case.

Nevertheless, we also had a lost time injury when a contractor pinched his finger whilst closing a pump flange. This incident illustrates the fact that we can and must still improve our safety performance. In 2017, we will continue to improve on our strong HSSE mind set, procedures and standards by continuously learning from operational behaviours and global industry best practices.

“ Hengyuan’s experience and input in growing HRC into a financially robust company will complement the knowledge and experience we have gained from being part of the Shell family over the past few decades.”

In addition to personal safety, process safety and integrity are also key areas of focus for our Company. With the objective of ‘keeping our products in the pipe’ we will strengthen the implementation of the Process Safety 9 Fundamentals, which we started in 2016. This is a set of rules we apply in the design of our plant and in procedures to further minimise losses of containment. It requires an attitude change of how we execute our jobs and will require a high sense of ownership from all staff to address and resolve issues.

The reliability of our plant continues to be management’s focus. The unplanned downtime in 2016 was high at 7.2%. We need to resolve this so that we can produce more products and generate more revenue. While we were successful in eliminating the failures during the year, we still need to drive reliability proactively. This will be a core focus area moving forward.

MANAGING DIRECTOR'S REVIEW

A WIN-WIN RELATIONSHIP WITH SHPC

In December 2016, we entered into an exciting new era following the completion of the acquisition exercise that resulted in SHPC becoming our new majority shareholder.

SHPC is fully committed to invest in and continue the operation of HRC. This commitment is crucial as it will require significant capital investment to maintain the integrity of our facilities during our 2018 turnaround and to execute the projects to meet Euro 4M Mogas and Euro 5 Gasoil product specifications. SHPC's entry also assures the continuity of employment, which was a much-welcomed relief for our management and staff.

HRC's management and staff are very keen and excited to leverage on SHPC's experience, complementing our own knowledge and experience gained from being part of the Shell family over the past few decades, in continuing HRC's growth. This includes undertaking new initiatives in the financial and risk management of our Company as well as exploring and expanding trade opportunities which can collectively propel the Company forward.

TOWARDS A BRIGHTER FUTURE

Although our 2016 financial performance is on par with 2015, margins during the year were quite volatile due to international conflicts, refining over-capacity and supply-demand mismatches. In the years ahead this volatility is likely to continue. Therefore it is important that we use hedging tools available in the market to mitigate the negative effects of these fluctuations. We will be leveraging on SHPC's experience and strategic partners to quickly gain momentum in this space in 2017.

Our staff have been instrumental in managing the challenges despite the uncertainties surrounding the acquisition exercise. Going through change is always difficult and as such, our staff deserves our compliments and gratitude for their dedication, trust and loyalty.

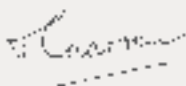
As in any company, the strength of an organisation lies in its Board of Directors, management team and employees – its human capital.

As such, our people will continue to be our priority. The Integrated People Plan and the Countdown Team were instrumental in supporting our team's transition process throughout 2016. We intend to build and fine-tune these strategies as we move further into 2017.

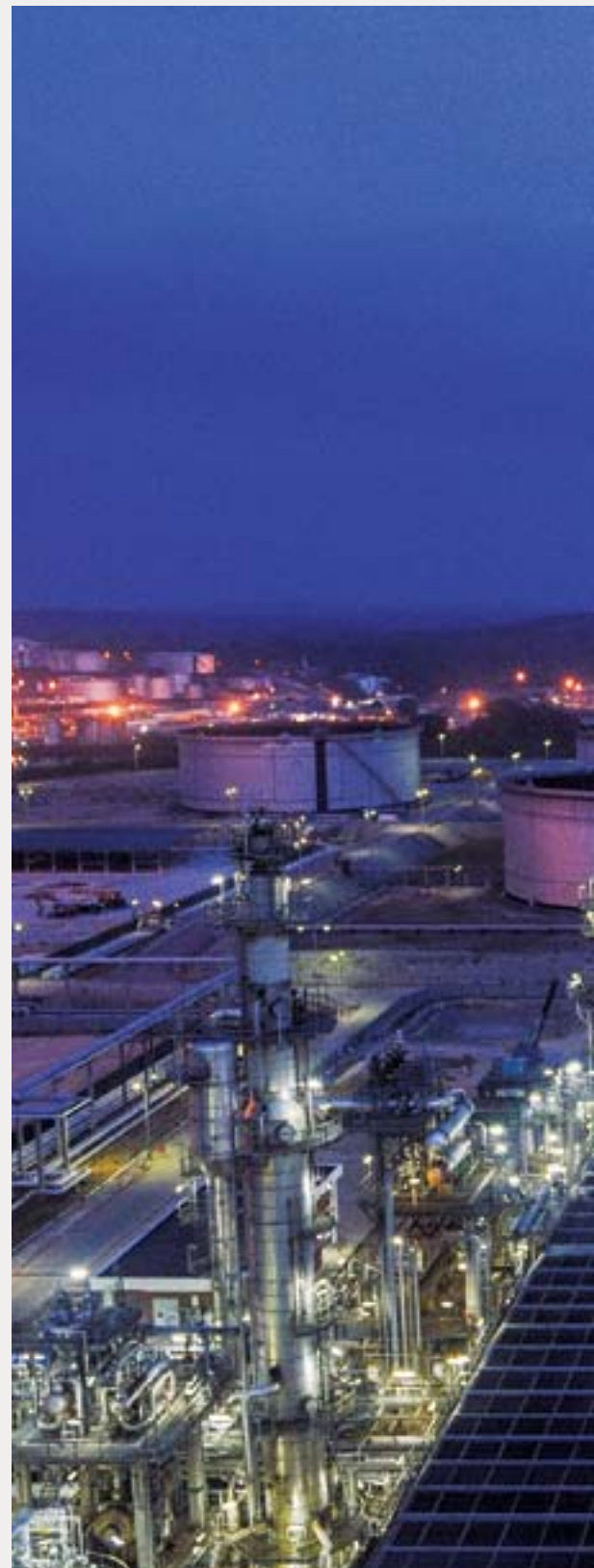
In delivering our ambitions, the continued support of our surrounding community, local and federal authorities as well as our investors is of prime importance. In 2017, we will review our Vision and Mission and associated with that, our Corporate Responsibility strategy and plan.

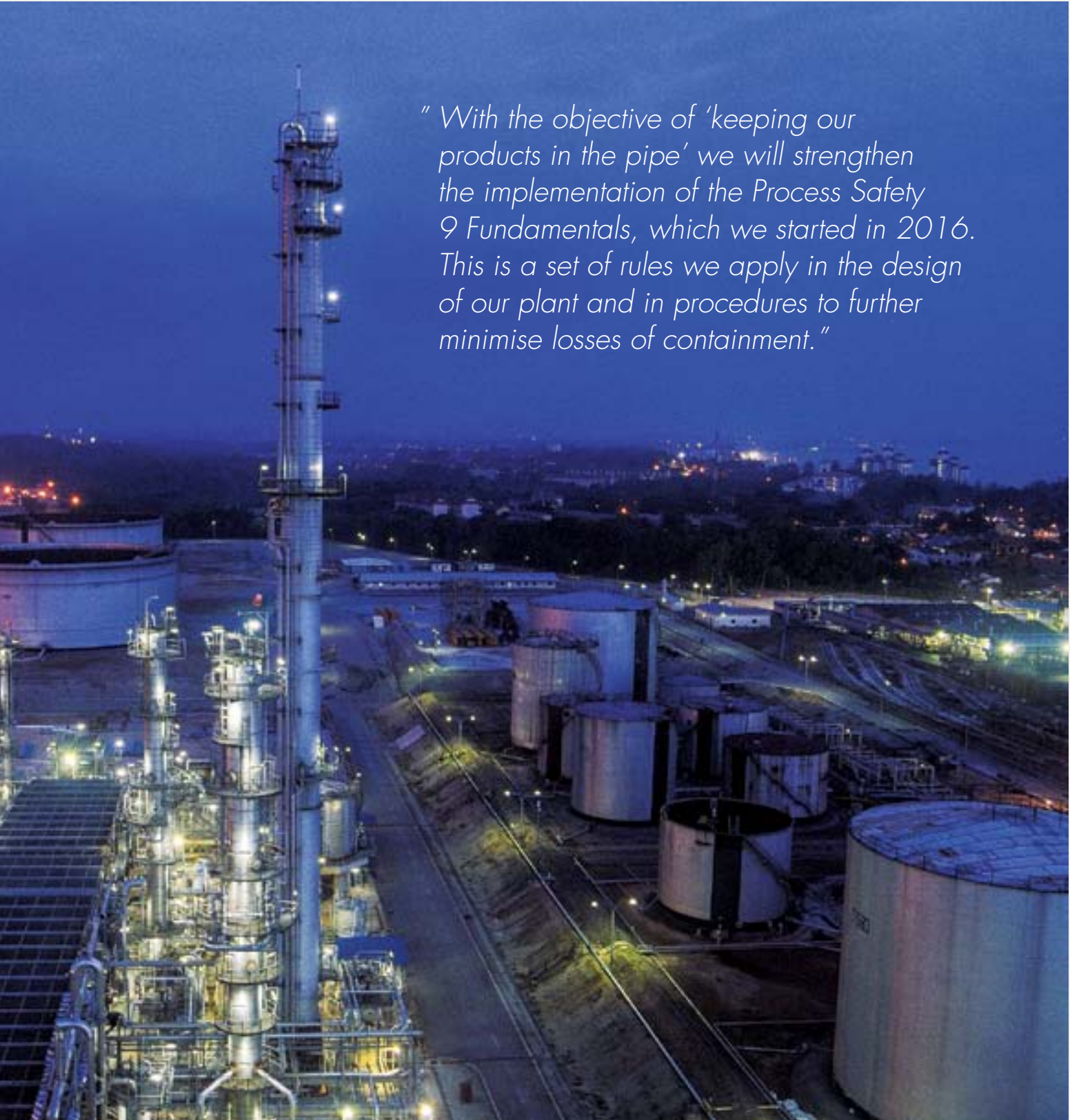
All in all, the relationship between HRC and SHPC is still new. We still need to explore the many ways in which HRC and SHPC can tap on each other's strength and capabilities to grow together. Our history has prepared us well for this, but the opportunities to excel even more, lay in our future.

As your Managing Director, I personally assure you that I, together with our Board, management and staff, are fully engaged, energised and committed to deliver upon these opportunities. We are resolute in our aim to drive HRC in a way that it can deliver a solid return on investment to its stakeholders consistently and sustainably.



Warm regards,
Maarten





" With the objective of 'keeping our products in the pipe' we will strengthen the implementation of the Process Safety 9 Fundamentals, which we started in 2016. This is a set of rules we apply in the design of our plant and in procedures to further minimise losses of containment."