



HERE TO STAY. HERE TO GROW.

**With Resilience
& Respect**



2020 ANNUAL REPORT

Hengyuan Refining Company Berhad

Registration No. 196001000259 (3926-U)



HERE TO STAY. HERE TO GROW.
With Resilience & Respect

2020 has been a challenging year for global economies as countries initiated lockdowns and movement restrictions in response to the unprecedented COVID-19 pandemic. Many industries continue to be impacted, including oil and gas, as demand has taken a plunge. HRC has braved the challenge with resilience by responding quickly to business changes and taking immediate measures to protect business sustainability. We also continue to demonstrate respect to our stakeholders, strengthening alliances, seeking win-win results and providing support and care to our surrounding community.



WE APPRECIATE YOUR FEEDBACK

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



LINK TO OUR ONLINE REPORTS

The online version of Hengyuan Refining Company Berhad's 2020 Annual Report and 2020 Sustainability Report are available on our website. Please visit www.hrc.com.my or scan the QR Code to download these reports.

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ABOUT THIS REPORT

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

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

The scope of our reporting covers the financial year from 1 January to 31 December 2020 and encompasses all material




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



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

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

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

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AT A GLANCE

Revenue



RM **7.2**
billion

Profit
After Tax



RM **251.0**
million

3 million
manhours without
Loss Time Injury
by 31 December 2020



Zero
work-related
fatalities track record
in **27** years



Implemented
Euro 5 Gasoil
as per Government
gazetted timeline



Winner of
**Prime Minister's
Hibiscus Award
2019 / 2020**
for Excellent Achievement
and Joint State Award for
Negeri Sembilan



Total sales volume



35.1

million bbls

17,746
training hours
conducted



EII energy
efficiency index
116.9



95.4%
Operational
Availability



4,723
Near Miss
Potential Incident
Report Submissions



CERTIFICATION

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



ENSURING BUSINESS CONTINUITY THROUGH THE PANDEMIC

HRC took a thorough and proactive approach in ensuring the health and safety of its employees and contractors. The timelines explain the steps taken to mitigate the spread of COVID-19.



Health & Safety SOP observed at an internal event.



Physical distancing practiced at all times.



JANUARY 2020

HRC's management began issuing health and safety advisories to all employees and contractors, alerting the emergence of COVID-19 cases in Malaysia. The Company made it mandatory for visitors, especially those arriving and returning from high-risk countries, to declare their health status before entering the premise of HRC. Additionally, body temperature screening was conducted at all entry points, and employees and contractors were reminded to observe and practice strict personal hygiene and physical distancing.

FEBRUARY 2020

HRC tightened its operations by encouraging employees to organise meetings virtually. Marine risk management was also introduced to protect the employees at the jetty. HRC jetty only accepted ships for berthing that had obtained clearance certificates (Free Partique) issued by local authorities. The clearance process involves a 14-day quarantine for ships, counted from their last date of departure from high-risk countries.

FEBRUARY - EARLY MARCH 2020

Regular meetings between working committees involving multiple departments were actively organised to discuss the required response for COVID-19 management. In early March, the Business Continuity Plan (BCP) addressing **COVID-19 Preparedness and Response** was reviewed and endorsed officially, and HRC adopted higher quarantine measures.

MID - MARCH 2020

As the country was hit by a sudden surge of positive cases (from the Sri Petaling mass gathering incident), HRC activated its BCP for COVID-19 and implemented the Split Resources Operations (SRO) for non-shift employees with immediate effect. This was implemented a few days before the Movement Control Order (MCO) was put in place. Employees were kept abreast with updates on operations and reminders to remain safe and healthy through the issuance of internal communication from the CEO, Human Resources (HR) and Quality, Health, Safety, Security, Environment (QHSSSE) departments. Measures included:

- Required PPE such as facemasks, gloves and hand sanitisers were made available to employees.
- All external trainings, non-essential events, Goal Zero Walk and Turun Padang were postponed until further notice.
- Only external trainers or vendors for essential meetings were allowed to enter HRC.
- Meetings were conducted virtually.
- Overseas business trips were postponed.

MARCH - MAY 2020

In addition to the monthly CEO e-letters to employees giving updates on refinery operations, virtual engagement sessions with the Leadership Team were launched for all employees working from home. The Emergency Management Team (EMT) was also activated for 14 weeks to centrally manage and address all operational issues arising from the rulings and standard operating procedures (SOPs) introduced by the Government during the MCO to ensure no disruption to HRC's operations.

APRIL 2020

The Company's HR and Corporate Affairs departments collaborated to implement the "HRC Cares" initiative where physical and mental health tips were shared with all employees on how to effectively and efficiently work from home. This initiative allowed the Company to be constantly in touch with employees.

JUNE 2020

With the status of MCO relaxed to Recovery MCO (RMCO), HRC decided to stand down the EMT and replace it with the New Norm committee, represented by employees from different departments. The New Norm committee implemented health and safety protocols in compliance to changes or policies introduced by the Government. Throughout the 14 weeks of EMT activation, HRC maintained Zero Confirmed Case.

JUNE - SEPT 2020

New Norm protocols incorporating COVID-19 mitigation controls were issued. These encompassed work from home, meetings, daily permit issuance, vendor and visitor management, the use of pantry and training.

OCTOBER - DECEMBER 2020

With numbers of COVID-19 cases increasing after the RMCO took effect, HRC quickly tightened up its processes as there were concerns of asymptomatic cases and accelerated positive cases in Negeri Sembilan. The "HRC Tighten Up" programme initiated these heightened measures in November:

- **"NO Mask, NO Entry"** at all HRC entry points.
- **"NO Mask, NO Meeting"** at all HRC meeting rooms.
- **"NO Mask, NO Entry to Vehicle"** for all vehicles in HRC.
- **"Mask ON When You Leave Your Desk"** when you move about.
- Sanitising stations at hot spots.


The SRO was reactivated on 16 November 2020 due to the sudden increase of active cases within the Port Dickson district.

COVID-19 Preparedness Trivia

12 March 2020 - 31 December 2020


101,605 
No. of face masks issued by 31 December 2020

40  Total COVID-19 Internal Communications Issued

13  Total of New Normal Protocols Developed & Implemented

14  EMT Cycles On-Duty

103  Employees Involved for COVID-19 BCP

Zero 
Confirmed Case in HRC for FY2020

CHAIRMAN'S STATEMENT

Dear Shareholders,

The COVID-19 pandemic has brought upon a significant impact to the refining industry, locally and globally. This situation is expected to remain fluid, making it difficult for industry players to fully assess the effect on supply and demand going forward.

However, at Hengyuan Refining Company Berhad (HRC or the Company), we have survived the brunt of this global health crisis, and we are confident that we are able to tide over this challenging period with resilience. By adhering to our sound and robust Business Continuity Plan, we have been able to deliver positive financial results to date.

I take this opportunity to report on HRC's key focus areas throughout 2020.

ASSURING SAFETY

In a year of unprecedented challenges, our key priority for 2020 centred on the need to survive and enhance our resilience. Respecting our people as our greatest asset, we prioritised putting in place preventive measures to protect our employees and contractors from the risks of being infected by COVID-19, and proactive measures were put into effect in a timely manner. These were even more pertinent as HRC, being a provider of essential services, remained operational throughout the various phases of control orders. We will endeavour to keep our workplace safe and continue maintaining operational uptime through the year ahead.




See page 04 for more details on our preventive measures.



WANG, YOUDE

Chairman


On the critical aspect of industrial occupational health and safety, we have been recognised by winning, for the first time, the National Council of Occupational Safety and Health (NCOSH) Award in the category of Major Industries - Petroleum / Gas / Chemicals Category, which was formally presented to us in February 2020. We have also participated in the prestigious Prime Minister Hibiscus Award (PMHA) in 2020 and were awarded the top tier Excellent Achievement Award and Joint State Award for Negeri Sembilan. This is the second award that HRC has won from PMHA, the earlier one being the Exceptional Achievement Award in 2017.

 See page 31 for more details on our awards and achievements.

ENSURING STABLE OPERATIONS

Amidst the lockdowns imposed in Malaysia, we experienced slower demand for refined products but remained committed and continued to sustain operations as we operate within the essential services sector. We responded with agility to our customers' changing needs and maintained services and product quality standards. Our ability to transition seamlessly within new operating norms is a credit to our robust Business Continuity Plan and stringent COVID-19 preventive measures.

We also continued to make good progress in the areas of quality and environmental management. In 2021, we successfully recertified for ISO 9001: 2015 Quality Management Systems and ISO 14001: 2015 Environmental Management Systems. Although there was no Green House Gas Verification Audit conducted by SIRIM QAS International in 2020, HRC continued to conduct the verification internally using the same approach, to ensure GHG emissions are in line with ISO 14064-1 and international standards.

 See page 30 for more details on our reliability and quality strategies.

IMPROVED SAVINGS

To surmount the drop in demand during this period, cost savings is key. Across the site, our people identified ways to improve efficiency at reduced costs. We have seen continuous improvement in the adoption of commercial and entrepreneurial mindsets among our employees. Their observations and ideas led to new and innovative ways to improve process efficiency and bring about cost optimisation throughout the Company. In addition, the hydrocarbon hedging strategy undertaken by the Company



HRC's Jetty at Port Dickson.

since 2018 has been safeguarding our refining margins and inventory value against market volatility and provided positive contribution to HRC's profitability in 2020.


On energy efficiency, the implementation of supporting tools such as CEMIS (CO₂ and Energy Management Information System) has helped to save cost and energy through its nimble energy optimisation system.

 See page 33 for more details on our cost saving strategies.

ELEVATED GOVERNANCE

Our commitment to conduct our business at the highest level of integrity remains of utmost priority and is highlighted in our policies, procedures and practices adopted throughout our value chain to support our ethical business culture.

In 2020, we implemented Office Automation (OA) application to facilitate good corporate governance culture and to reinforce ethical, prudent and professional behaviour within the Company. We made it compulsory and convenient for employees to register gifts that were received from our business partners and declare any conflicts of interests via the OA platform. Approvals for such gifts and conflicts were also granted and recorded through the OA, making it easy for the Company's officers to track and review compliance of the Company's policies.

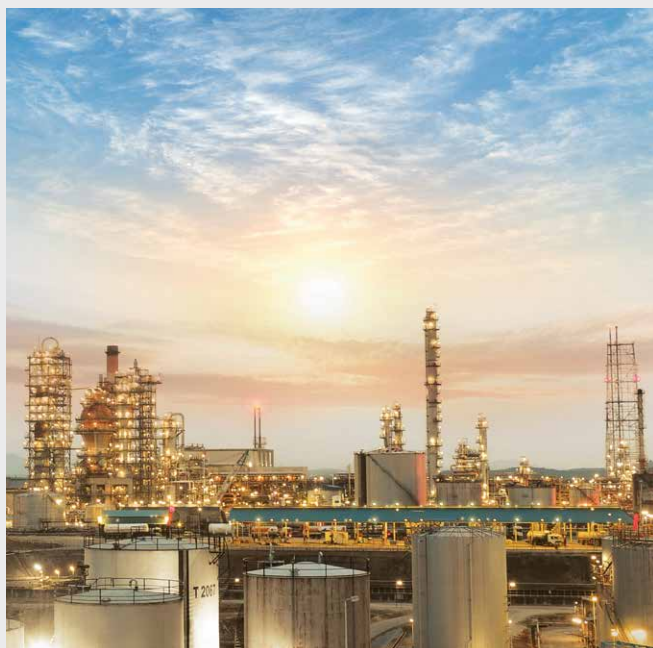
 See page 50 for more details on our commitment to good governance.

CHAIRMAN'S STATEMENT

2020 DIVIDENDS

The extraordinary pandemic situation continues to create uncertainties within the industry. As things stand, the Board's view is to maintain a conservative set of assumptions in cash flow projections, business forecasts and other reviews as required by the Companies Act 2016.

Nevertheless, after much deliberation and in appreciation of the support shown by shareholders, the Board approved an interim dividend of RM0.04 per share for the financial year ended 2020.



Golden view of the refinery at sunset.

LOOKING FORWARD

With our robust and tested Business Continuity Plan in place, disruptions of the Movement Control Order had minimal impact to our day-to-day operations. Meanwhile, we continue to make progress with our projects in accordance with the new completion timeline prescribed by the Malaysian Government.

 See page 34 for more details on our key projects.

As we cannot determine how long the COVID-19 pandemic would remain as a risk to our economy and society, our priority in 2021 is to assure successful and sustainable operations whilst investing in opportunities to thrive in the mid-term.

We intend to do so by honing a competitive edge through operational excellence, reducing operational costs and expanding our potential in inland sales through relationship consolidation with existing partners, developing a new customer base and expanding existing channels. We also remain vigilant in ensuring that the health and safety of our employees are not exposed to the threats of COVID-19 at site.

 See page 39 for more details on our outlook and goals.

Going forward, the combination of strengths and opportunities that we intend to leverage on are summarised as follows:

- Hedging systems for margin, inventory and foreign exchange which are in place and working well.
- Continued implementation of operational enhancement plans to improve efficiency and reliability.
- Productivity improvements in business processes through digitalisation.
- Potential future upside for refinery margins due to closure of regional refineries.
- Exploring synergies within the group of companies on supply chain and service opportunities.
- Potential expansion of customer base and increasing sales with existing customers.

ACKNOWLEDGEMENTS

The Board and I take this opportunity to acknowledge the dynamic leadership of Mr Erkki Tapio Ranta, who took up the role, duties and responsibilities as Chief Executive Officer on 1 March 2020. His vast experience in the oil and gas industry for over 29 years has been integral towards instilling teamwork and helping steer HRC through this unparalleled time.

We are thankful for our people's support and contribution through the challenging period and grateful to our shareholders and stakeholders for their unwavering faith and patience in HRC's business plans and strategies. Let's all stay safe, strong and smart as we brave the uncertainties ahead and navigate our way through current challenges, shaping the way towards an era of new energy solutions.

Wang, YouDe
Chairman

OUR STRENGTHS

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



Hijau Unit - A diesel hydrodesulphurisation unit.



OUR HERITAGE

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



OUR ANCHOR

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



OUR PEOPLE

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



OUR COMMITMENT

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

Investing to be future-ready, we have also initiated projects required to meet specifications mandated by the Malaysian governing authorities and which are integral not only to HRC's contribution towards nation building, but will also enable dynamic and sustainable growth through to 2021 and beyond.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Wang, YouDe

Chairman
Non-Independent Non-Executive Director

Wang, ZongQuan

Deputy Chairman
Non-Independent Non-Executive Director

Loy Swee Im

Non-Independent Non-Executive Director

Alan Hamzah Sendut

Independent Non-Executive Director

Fauziah Hisham

Independent Non-Executive Director

Liang Kok Siang

Independent Non-Executive Director

Surinderdeep Singh Mohindar Singh

Independent Non-Executive Director

BOARD AUDIT COMMITTEE

Alan Hamzah Sendut (Chair)
Fauziah Hisham
Liang Kok Siang
Surinderdeep Singh Mohindar Singh

BOARD NOMINATING AND REMUNERATION COMMITTEE

Surinderdeep Singh Mohindar Singh (Chair)
Wang, YouDe
Fauziah Hisham

BOARD RISK MANAGEMENT COMMITTEE

Loy Swee Im (Chair)
Alan Hamzah Sendut
Liang Kok Siang

BOARD PROJECTS REVIEW COMMITTEE

Wang, ZongQuan (Chair)
Wang, YouDe
Surinderdeep Singh Mohindar Singh

BOARD TENDER COMMITTEE

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

BOARD WHISTLEBLOWING COMMITTEE

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

SECRETARIES

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

Ong Wai Leng

(SSM PC No 202008003219 /
MAICSA No 7065544)

AUDITORS

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

SHARE REGISTRAR

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

AGM HELP DESK

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

STOCK EXCHANGE LISTING

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

REGISTERED OFFICE

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

BUSINESS ADDRESS

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

FINANCIAL CALENDAR

2020

16 June	Unaudited financial results for the 1 st Quarter ended 31 March 2020
23 June	61 st AGM
18 August	Unaudited financial results for the 2 nd Quarter ended 30 June 2020
26 November	Unaudited financial results for the 3 rd Quarter ended 30 September 2020

2021

26 February	Unaudited financial results for the 4 th Quarter ended 31 December 2020
26 April	Notice of 62 nd AGM
25 May	62 nd AGM



GENERAL BUSINESS PRINCIPLES

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



BUSINESS INTEGRITY

HRC insists on honesty, integrity and fairness in all aspects of our business and expects the same in our relationships with all those with whom we do business. The direct or indirect offer, payment, soliciting or acceptance of bribes in any form is unacceptable. Facilitation payments are also bribes and must not be made.

Employees must avoid conflicts of interest between their private activities and their part in the conduct of the Company's business. Employees are also required to declare any potential conflicts of interest. All business transactions on behalf of HRC must be reflected accurately and fairly in the accounts of the Company in accordance with established policies and procedures and are subject to audit and disclosure.



QUALITY, HEALTH, SAFETY, SECURITY & ENVIRONMENT

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



ECONOMIC

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

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



COMPETITION

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



COMMUNICATION AND ENGAGEMENT

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



COMPLIANCE

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



LOCAL COMMUNITIES

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

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



POLITICAL ACTIVITIES

A. Of Company

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

B. Of Employees

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

NOTICE OF 62ND ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Sixty-Second Annual General Meeting (62nd AGM) of Hengyuan Refining Company Berhad (the Company) will be held entirely through live streaming from the broadcast venue at **Tricor Business Centre, Manuka 2 & 3 Meeting Room, Unit 29-01, Level 29, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia (Broadcast Venue)** on **Tuesday, 25 May 2021 at 10.00 a.m.** to transact the following businesses:

AGENDA

ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2020 and the Reports of the Directors and Auditors thereon.
[Please refer to Note (a)]
2. To re-elect the following Directors retiring in accordance with Article 81(c) of the Constitution of the Company, and who being eligible, have offered themselves for re-election:
 - i) Mr Liang Kok Siang **(Ordinary Resolution 1)**
 - ii) Mr Surinderdeep Singh Mohindar Singh **(Ordinary Resolution 2)**
3. To re-elect Ms Loy Swee Im who is retiring in accordance with Article 81(h) of the Constitution of the Company, and who being eligible, have offered herself for re-election. **(Ordinary Resolution 3)**
4. To re-appoint Messrs PricewaterhouseCoopers PLT as Auditors of the Company until the conclusion of the next Annual General Meeting (AGM) and to authorise the Directors to fix their remuneration. **(Ordinary Resolution 4)**
5. To approve payment of Non-Executive Directors' fees and benefits of up to RM 2,300,000.00 for the period from 1 June 2021 until 31 May 2022. **(Ordinary Resolution 5)**

[Please refer to Note (b)]

SPECIAL BUSINESS

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

6. **PROPOSED RENEWAL OF AUTHORITY TO ALLOT AND ISSUE SHARES PURSUANT TO SECTIONS 75 AND 76 OF THE COMPANIES ACT 2016** **(Ordinary Resolution 6)**

"THAT subject to Sections 75 and 76 of the Companies Act, 2016 (the Act), the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Bursa Securities) and the approval of the relevant regulatory authorities, where such approval is required, the Directors of the Company be and are hereby authorised to issue and allot shares in the capital of the Company, grant rights to subscribe for shares in the Company, convert any securities into shares in the Company, or allot shares under an agreement or option or offer (New Shares) from time to time, at such price, to such persons and for such purposes and upon such terms and conditions as the Directors may in their absolute discretion deem fit, provided that the aggregate number of such New Shares to be issued and allotted, to be subscribed under any rights granted, to be issued from conversion of any security, or to be issued and allotted under an agreement or option or offer, pursuant to this resolution, when aggregated with the total number of any such shares issued during the preceding 12 months does not exceed 10% of the total number of issued shares (excluding any treasury shares) of the Company for the time being **AND THAT** such authority shall continue to be in force until the conclusion of the next AGM of the Company."

[Please refer to Note (c)]

7. **PROPOSED RENEWAL OF AUTHORITY FOR SHARE BUY-BACK** **(Ordinary Resolution 7)**

"THAT subject always to the Act, the Constitution of the Company, the Main Market Listing Requirements of Bursa Securities (Listing Requirements) and all other applicable laws, guidelines, rules and regulations, the Company be and is hereby authorised, to the fullest extent permitted by law, to purchase such number of issued shares in the Company as may be determined by the Directors of the Company from time to time through Bursa Securities upon such terms and conditions as the Directors may deem fit and expedient in the interest of the Company provided that:

- i. the aggregate number of issued shares in the Company (Shares) purchased (Purchased Shares) and / or held as treasury shares pursuant to this ordinary resolution does not exceed ten per centum (10%) of the total number of issued shares of the Company as quoted on Bursa Securities as at point of purchase; and
- ii. the maximum fund to be allocated by the Company for the purpose of purchasing the shares shall not exceed the aggregate of the retained profits of the Company based on the latest audited financial statements and / or the latest management accounts (where applicable) available at the time of the purchase,

(Proposed Share Buy-Back).

NOTICE OF 62ND ANNUAL GENERAL MEETING

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

- a. the conclusion of the next AGM of the Company following at which time the authority shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions;
- b. the expiration of the period within which the next AGM after that date is required by law to be held; or
- c. revoked or varied by ordinary resolution passed by the shareholders of the Company at a general meeting,

whichever occurs first, but shall not prejudice the completion of purchase(s) by the Company of its own Shares before the aforesaid expiry date and, in any event, in accordance with the Listing Requirements and any applicable laws, rules, regulations, orders, guidelines and requirements issued by any relevant authorities.

AND THAT the Directors of the Company be and are hereby authorised, at their discretion, to deal with the Purchased Shares until all the Purchased Shares have been dealt with by the Directors in the following manner as may be permitted by the Act, Listing Requirements, applicable laws, rules, regulations, guidelines, requirements and / or orders of any relevant authorities for the time being in force:

- i. To cancel all or part of the Purchased Shares;
- ii. To retain all or part of the Purchased Shares as treasury shares as defined in Section 127 of the Act;
- iii. To distribute all or part of the treasury shares as dividends to the shareholders of the Company;
- iv. To resell all or part of the treasury shares;
- v. To transfer all or part of the treasury shares for the purposes of or under the employees' share scheme established by the Company and/or its subsidiaries;
- vi. To transfer all or part of the treasury shares as purchase consideration;
- vii. To sell, transfer or otherwise use the shares for such other purposes as the Minister may by order prescribe; and / or
- viii. To deal with the treasury shares in the manners as allowed by the Act, Listing Requirements, applicable laws, rules, regulations, guidelines, requirements and / or orders of any relevant authorities for the time being in force.

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

[Please refer to Note (d)]

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

"**THAT** subject to the Listing Requirements, approval be and is hereby given for the Company to enter into recurrent related party transactions of a revenue or trading nature with the related parties as set out in Section 2.2.2 of the Circular to Shareholders dated 26 April 2021 which are necessary for day-to-day operations and are carried out in the ordinary course of business on terms which are not more favourable to the related parties than those generally available to the public and are undertaken on an arms' length basis and not to the detriment of minority shareholders;

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

- (a) the conclusion of the next AGM of the Company at which this shareholders' mandate will lapse, unless by a resolution passed at the next AGM, the mandate is renewed;
- (b) the expiration of the period within which the next AGM after that date is required to be held pursuant to Section 340 of the Act (but must not extend to such extension as may be allowed pursuant to Section 340(4) of the Act); or
- (c) revoked or varied by resolution passed by the shareholders in a general meeting, whichever is the earlier;

AND THAT the Board of Directors be and is hereby authorised to complete and do all such acts and things as it may consider expedient or necessary (including executing such documents as may be required) to give effect to the transactions contemplated and / or authorised by this mandate."

[Please refer to Note (e)]

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

BY ORDER OF THE BOARD

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

Dated this 26 April 2021
Kuala Lumpur

NOTICE OF 62ND ANNUAL GENERAL MEETING

NOTES:-

1. In view of the COVID-19 pandemic and as part of the safety measures, the Company's 62nd Annual General Meeting (AGM) will be conducted on a fully virtual basis through live streaming and online remote voting using the Remote Participation and Voting (RPV) facilities provided by Tricor Investor & Issuing House Services Sdn Bhd (Tricor) via its TIIH Online website at <https://tiih.online>.

2. The Broadcast Venue of the AGM is strictly for the purpose of complying with Section 327(2) of the Companies Act 2016 (the Act) which requires the Chairperson of the meeting to be present at the main venue of the meeting. **NO SHAREHOLDERS / PROXY(IES) WILL BE ALLOWED TO BE PHYSICALLY PRESENT AT THE BROADCAST VENUE.**

3. Shareholders may exercise their right to attend, speak (including posing questions to the Board via real time submission of typed texts) and vote (collectively, participate) remotely at the 62nd AGM via the RPV facilities provided by Tricor via its **TIIH Online website at <https://tiih.online>**.

Please refer to the "Procedures for RPV" in the Administrative Guide for the Company's 62nd AGM and take note of Notes (4) to (16) below in order to register, participate and vote remotely via the RPV facilities. The Company may be required to change the arrangements of the AGM at short notice due to the constantly evolving COVID-19 situation in Malaysia. Kindly check Bursa Malaysia Securities Berhad's website and the Company's website at www.hrc.com.my for the latest updates on the status of the AGM.

4. For the purpose of determining a member who shall be entitled to participate in this AGM, the Company shall be requesting Bursa Malaysia Depository Sdn Bhd to make available to the Company a **Record of Depositors as at 18 May 2021** and only a depositor whose name appears on the Record of Depositors shall be entitled to participate at the AGM or appoint proxy(ies) to participate in his stead.

5. A member who is entitled to participate in this AGM is entitled to appoint a proxy or attorney or in the case of a corporation, to appoint a duly authorised representative to participate in his / her place. A proxy may but need not be a member of the Company.

6. A member of the Company who is entitled to attend and vote at a general meeting of the Company may appoint not more than two (2) proxies to participate instead of the member at the AGM. A member may appoint more than one proxy in relation to a meeting, provided that the member specifies the proportion of the member's shareholdings to be represented by each proxy.

7. 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.

8. Where an exempt authorised nominee appoints two (2) or more proxies, the proportion of shareholdings to be represented by each proxy must be specified in the instrument appointing the proxies.

9. A proxy need not be a member of the Company. There shall be no restriction as to the qualification of the proxy.

10. 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.

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

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

Members, proxies, attorneys or authorised representatives who have registered as a RPV user **must register to attend and participate at the AGM via RPV (AGM Registration). AGM Registration is open from Monday, 26 April 2021** until the day of the AGM on **Tuesday, 25 May 2021**. Please follow the steps detailed in the "Procedures for RPV" section of the Administrative Guide for the Company's 62nd AGM.

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

(i) In Hard Copy Form

By hand or post to the office of the share registrar of the Company, Tricor Investor & Issuing House Services Sdn Bhd, at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

(ii) By Electronic Form

The proxy form can be submitted electronically via Tricor's TIIH Online Website at <https://tiih.online>. Kindly refer to the Administrative Guide on the procedure for electronic lodgement of the proxy form.

The last date and time for lodging the proxy form is **Sunday, 23 May 2021 at 10.00 a.m.**, we recommend that the appointment of proxy be done as early as possible so that the appointed proxy has sufficient time to complete the AGM Registration.

14. Appointments of corporate representative / power of attorney can be submitted either electronically or by hard copy in accordance with the instructions for lodgement in Note 13 above.

15. The certificate of appointment of a corporate representative should be executed in the following manner:

(i) If the corporate member has a common seal, the certificate of appointment should be executed under seal in accordance with the constitution of the corporate member.

(ii) If the corporate member does not have a common seal, the certificate of appointment should be affixed with the rubber stamp of the corporate member (if any) and executed by:

(a) at least two (2) authorised officers, of whom one shall be a director; or

(b) any director and / or authorised officers in accordance with the laws of the country under which the corporate member is incorporated.

16. A copy of the power of attorney may be accepted, provided that it is certified notarially and / or in accordance with the applicable legal requirements in the relevant jurisdiction in which it is executed.

Explanatory Notes:**a. Agenda No 1**

This item is meant for discussion only. The provisions of Section 340(1)(a) of the Act require that the audited financial statements and the Reports of the Directors and Auditors thereon be laid before the Company at its AGM. As such, this Agenda item is not a business which requires a resolution to be put to vote by shareholders.

b. Ordinary Resolution No 5

This resolution is to facilitate payment of Non-Executive Directors' fees and benefits for the period from 1 June 2021 to 31 May 2022.

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

Directors' benefits include meeting allowances and other emoluments payable to Directors and in determining the estimated total the Board had considered various factors including the number of scheduled meetings for the Board and Board Committees and covers the period from 1 June 2021 to 31 May 2022.

c. Ordinary Resolution No 6

The proposed Resolution No 6, if passed, will empower the Directors of the Company to issue and allot ordinary shares of the Company from time to time and to grant rights to subscribe for shares in the Company, convert any securities into shares in the Company, or allot shares under an agreement or option or offer, provided that the aggregate number of shares allotted pursuant to this resolution does not exceed 10% of the total number of issued shares (excluding treasury shares) of the Company.

This proposed Resolution is a renewal of the previous year's mandate. The mandate is to provide flexibility to the Company to issue new securities without the need to convene separate general meeting to obtain its shareholders' approval so as to avoid incurring additional costs and time.

The purpose of this general mandate, if passed, will enable the Directors to take swift action in case of a need to issue and allot new shares in the Company for fund raising exercises, including but not limited to further placement of shares for the purposes of funding current and / or future investment projects, working capital, repayment of bank borrowings,

acquisitions and / or for the issuance of shares as settlement of purchase consideration, or other circumstances arise which involve grant of rights to subscribe for shares, conversion of any securities into shares, or allotment of shares under an agreement or option or offer, or such other application as the Directors may deem fit in the best interest of the Company.

As at the date of this notice, the Company did not implement its proposal for new allotment of shares under the general mandate pursuant to Sections 75 and 76 of the Act which was approved by the shareholders at the 61st AGM held on 23 June 2020 and will lapse at the conclusion of the 62nd AGM to be held on 25 May 2021. As at the date of this notice, there is no decision to issue new shares. Should there be a decision to issue new shares after the general mandate is sought, the Company will make an announcement of the actual purpose and utilisation of proceeds arising from such issuance of shares.

d. Ordinary Resolution No 7

The proposed Resolution No 7, if passed, will empower the Directors to purchase, on behalf of the Company, up to 10% of the total number of issued shares of the Company by utilising the funds allocated which shall not exceed the retained profits of the Company. This authority, unless revoked or varied at a general meeting, will expire at the conclusion of the next AGM of the Company.

For further information, please refer to the Share Buy-Back Statement dated 26 April 2021 accompanying the Company's Annual Report for the financial year ended 31 December 2020.

e. Ordinary Resolution No 8

The proposed Ordinary Resolution 8 is to seek renewal of the Shareholders' Mandate and approval for the new Shareholders' Mandate to allow the Company and / or its subsidiaries to enter into recurrent related party transactions of a revenue or trading nature and to enable the Company to comply with Paragraph 10.09, Part E of the Main Market Listing Requirement of Bursa Malaysia Securities Berhad. The mandate will take effect from the date of the passing of the ordinary resolution until the next AGM of the Company unless it is revoked or varied at a general meeting. For further information, please refer to the Circular to Shareholders dated 26 April 2021 accompanying the Company's Annual Report for the financial year ended 31 December 2020.

STATEMENT ACCOMPANYING NOTICE OF ANNUAL GENERAL MEETING

(Pursuant to Paragraph 8.27(2) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad)

1. There is no person seeking election as director of the Company at this Annual General Meeting.
2. Details of the general mandate to issue shares in the Company pursuant to Sections 75 and 76 of the Companies Act 2016 are set out in Explanatory Note (c) of the Notice of AGM.

People & Leadership

01



We continue to invest in our people as our cornerstone of success, through:

- Working with core values to enhance performance
- Open and honest communication • Employee engagement
- Attrition • Recognition • Talent development
- Succession planning



Note: Meeting held prior to MCO which started on 18 March 2020

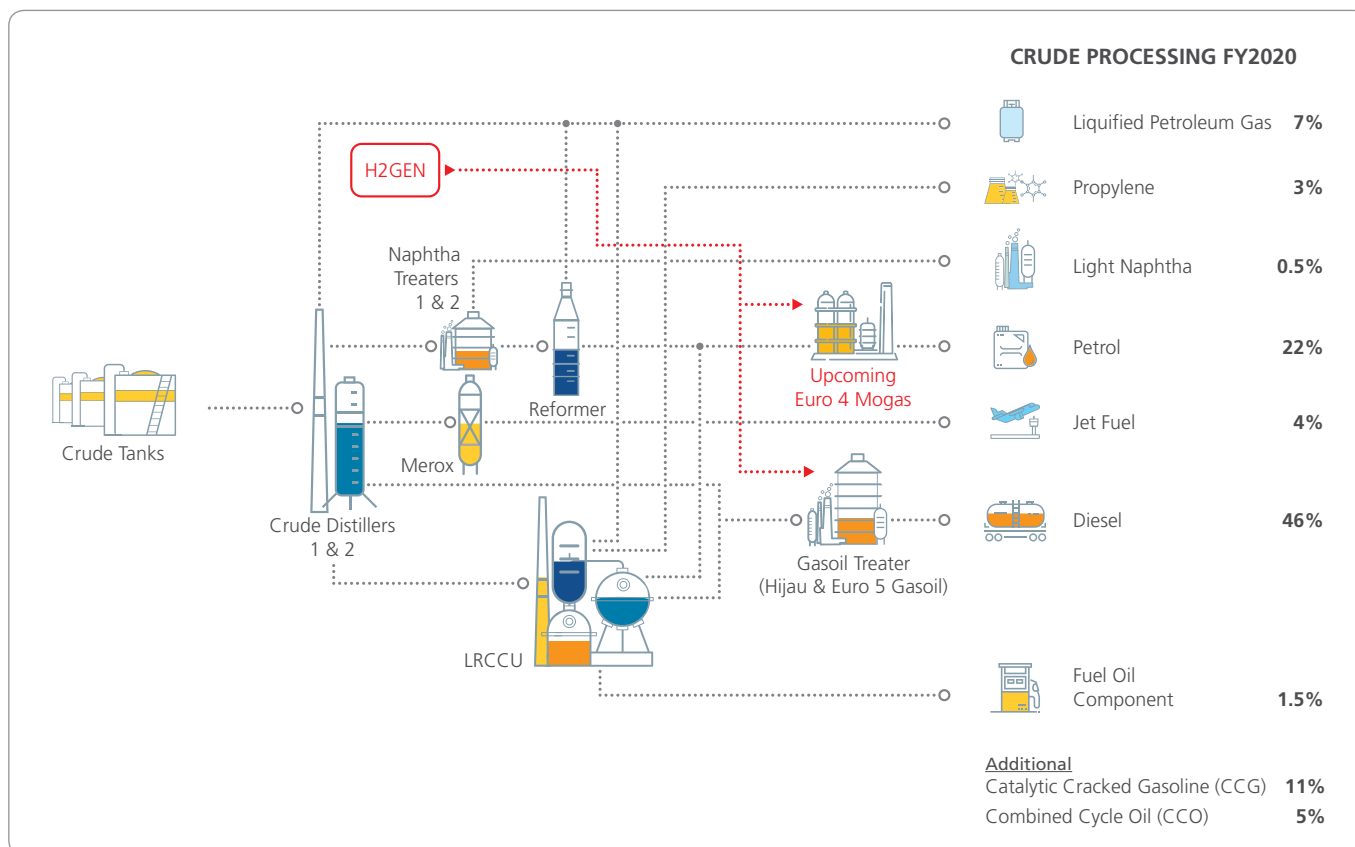
BUSINESS OVERVIEW

The year 2020 marked the fourth decade of operations of Hengyuan Refining Company Berhad (HRC or the Company), one of Malaysia’s most established and reliable refiners. Our oil refinery in Port Dickson, Negeri Sembilan continues to play an integral role in the nation’s oil and gas industry and to the surrounding community. We process crude oil from Malaysia and other countries to deliver an average of up to 156,000 barrels per day of petroleum products to customers in Malaysia and Southeast Asia.

While we look towards a future of petrochemical and renewable energy beyond 2025, our present business activities are focused on refining and processing crude oil, refinery operations and maintenance, and supplying refined products to our customers through three channels: the multi-product pipeline to the Klang Valley and KLIA, our truck loading gantry for local (West Malaysia) customers and exporting to vessels through our jetty.

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

AN OVERVIEW OF HRC’S REFINERY

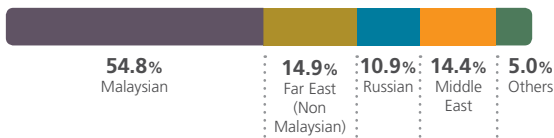




HRC's refinery in Port Dickson.

Our crude oil supply is sourced from Malaysian and international trade partners based on commercial viability and competitive pricing. We continue to focus on building more relationships with the crude supply network locally, regionally and globally to benefit from competitive pricing. To complement these diversification efforts, HRC has also implemented intricate hedging arrangements to protect refining margins against volatility and mitigate the impacts of sudden crude price escalations. Our comprehensive range of petroleum products include liquefied petroleum gas (LPG), petrol, jet fuel, diesel, fuel oil components, sulphur and chemical feedstocks (such as light naphtha and propylene).

SOURCES OF CRUDE



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

OUR STRATEGIC COMPASS

The implementation of HRC's Vision, Mission and Values in Financial Year (FY) 2020 amid the COVID-19 pandemic has given employees the opportunity to have a more engaging and meaningful conversation with their respective leaders about the Company's aspiration and expectations. These virtual discussions on our core values were essential to keep employees unified and motivated as we navigated through the pandemic.

Through various virtual sessions with members of the leadership team during the year, leaders were able to articulate how the core values translate to the circumstances at hand. This resulted in greater clarity in shaping the desired culture of the organisation and will go a long way in reinforcing our foundation for the next growth phase.

What We Aspire: OUR VISION

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

What Drives Us: OUR MISSION

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

What Defines Us: OUR VALUES



VALUES

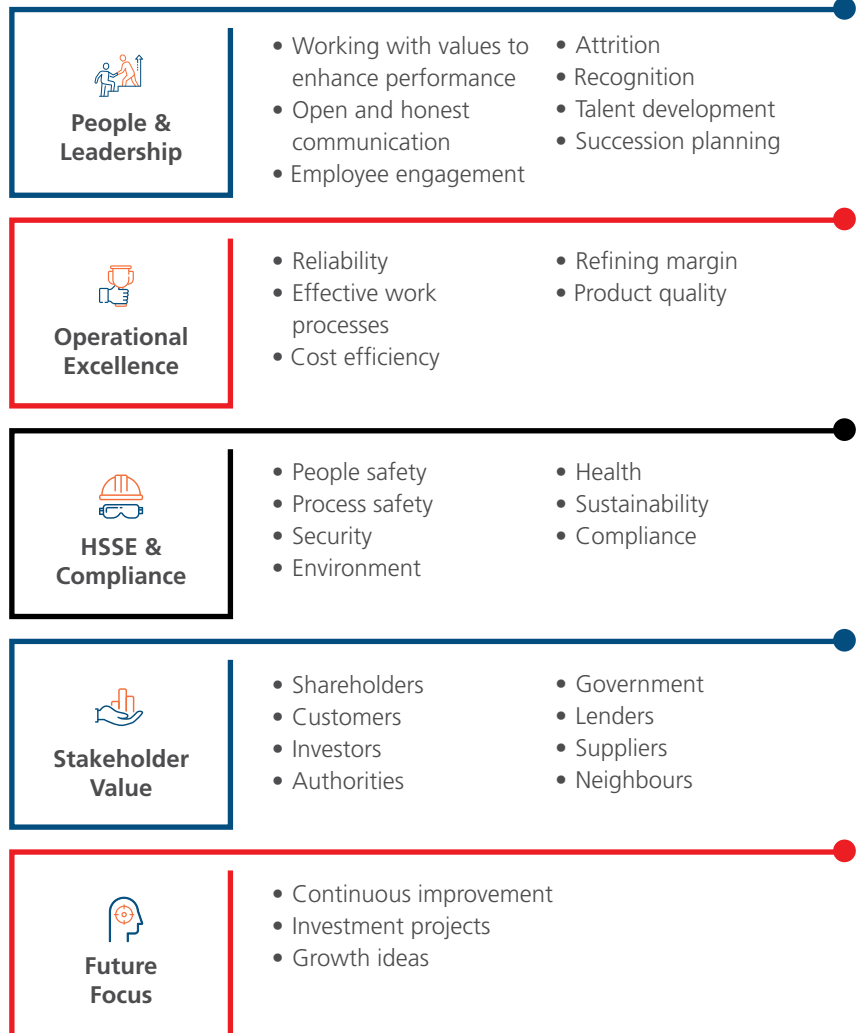


"In surmounting the challenges of 2020, it was more pivotal than ever that we upheld our core value of 'Respect' in all of our daily interactions – with each other, our customers, the authorities and the surrounding community. For instance, at our workplace, 'Respect' helped boost safety and accountability as looking after the work area and removing any hazards is fundamentally about respect. Respect leads us to give our best effort for the team, expect the best in others and humbly realise we are part of a greater mission."

BUSINESS STRATEGY: REDEFINING OUR STRATEGIC FRAMEWORK

Led by our new Chief Executive Officer, HRC adopted a redefined strategic framework during the year under review to chart a more resilient journey for the Company to the year 2021. This is in line with a macro focus on surviving the crisis, as a result of the pandemic, through on-going efforts in fortifying a resilient work culture while building sustainability. Once oil demand recovery is in sight, the key priority is to build capabilities for the future around new energy solutions and to capitalise on the opportunities that lie ahead.

Our redefined strategic framework encompasses five main pillars that are critical to our business. Each pillar carry vital attributes that will further strengthen the operations of the Company.



Operational Excellence

02

We commit to continuous business improvements in:

- Reliability
- Effective work processes
- Cost efficiency
- Refining margin
- Product quality





Note: Photo taken prior to MCO which started on 18 March 2020

HERE TO STAY, HERE TO GROW

WITH RESILIENCE & RESPECT

MARKET CHALLENGES

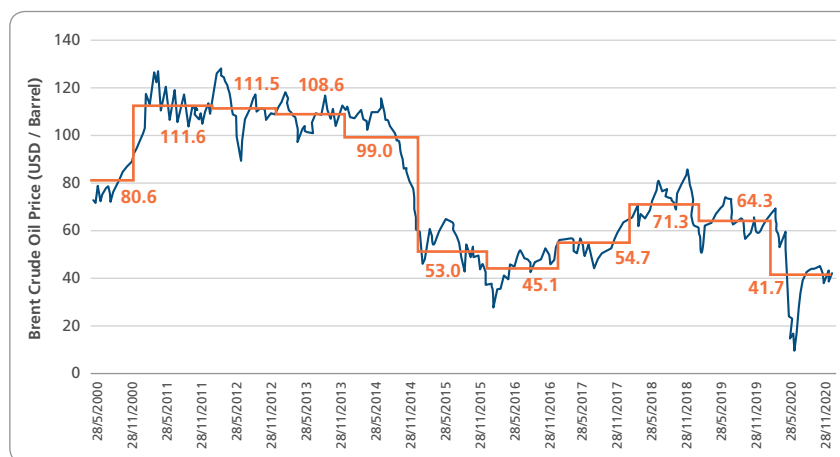
The COVID-19 pandemic has caused more disruptions to the energy sector than any other events in recent history. Oil refiners remained subject to heightened levels of uncertainty¹ because responses to COVID-19 continue to evolve. Reduced economic activity as a result of the pandemic had impacted energy demand and supply patterns in 2020.

ON THE GLOBAL FRONT

On average, the International Energy Agency (IEA) estimates global oil demand have plunged 9 per cent across the year 2020. According to The U.S. Energy Information Administration (EIA) forecasts, year-on-year oil demand growth dropped to an estimated average of 92.4 million barrels a day (b/d), which is about 8.8 million b/d less than 2019's average. Brent crude prices averaged lower to USD41.7 per barrel (/bbl) in 2020 compared to USD64.3 / bbl in 2019.

There is high likelihood that oil price remains dampened throughout the COVID-19 pandemic. Uncertainties in US-China trade relations, especially the uncertainties in US trade policy and tariff policy, will also have a negative impact on the recovery prospects of global economies.

BRENT CRUDE OIL PRICES - 10 YEAR DAILY CHART



Refining margins in South East Asia have been struggling throughout 2020 as volatile crude oil prices and refinery over-capacity impacted margins. With oil demand subdued as the world economy grapples with COVID-19 repercussions, there is risk of continued narrow refining margins in 2021. However as vaccinations are rolling out as planned, there are now stronger expectations of economic recovery in the second half of 2021. HRC is poised and ready to ramp up our refinery run rate to capitalise on better margins from improved demand.

Amidst these challenges, some positive developments from vaccine developments and stimulus packages from central banks will provide a boost of quick economic recovery, which will support the recovery of petroleum demand.

ON THE LOCAL FRONT

In Malaysia, the industry was impacted by a year of new norms as well as political and economic upheavals. Domestic GDP growth contracted by 5.6 per cent in 2020, it's lowest contraction after 1998. The restricted movement brought about by the Movement Control Order (MCO) has led to reductions in HRC's inland Jet-A1, LPG, Gasoil and U95 sales in 2020.

New norms and regulations led to a major shift in interaction as more sectors implemented work from home guidelines and leveraged on online meetings, effectively reducing petrol consumption. In the adoption of increased digitalisation and automated work processes, the pandemic turned into a "fast-forward" scenario, where what might have taken years to happen had instead unfolded in a matter of months.

Digitalisation is expected to play a key role in effective energy transition strategies in 2021. Apart from enabling remote operations and driving human-machine collaboration, digitalisation has an important role to play in setting near-term emissions targets, using standardised and credible reporting, and tracking accountability across the hierarchy.

On the environmental front, in view of unprecedented challenges that the industry had to cope with, the Government officially deferred the Euro 5 Gasoil Go-Live date to April 2021, of which HRC has successfully implemented before the stipulated due date.

¹ MIDF Research 2019 Report, and EIA Short-Term Energy Outlook December 8, 2020

PERFORMANCE REVIEW

Year 2020 was a challenging year for HRC. Generally, all sectors were disrupted by the COVID-19 pandemic and consequently by the MCO restrictions. Although there was minimal interruption to our day-to-day operations because the oil and gas sector is an essential sector in Malaysia, consumption was reduced due to the slowdown in activities by industries and households in compliance with travel restrictions and stay-at-home orders issued by the Government.

Additionally, HRC faced several incidents such as a tank fire incident in May, an instrument air compressor card failure that led to a small fire incident in August and an underground pipeline leakage in October. These affected plant availability and resulted in increased unplanned downtime (UPDT) for the year.

While we were behind our targets in safeguarding stable refinery operations, we were successful in securing our other core priority – the health and safety of our employees and contractors. HRC has been working closely with all of our contractors and partners to ensure all preventive measures were effectively put in place and strictly adhered to by our employees and contractors.

Managing costs was another key achievement. HRC managed to compensate the very low regional refining margin through hedging gains.

With HRC’s strong Business Continuity Plan in place, our distribution channel continued to be intact. We remained focus on strengthening our operations in Malaysia by honing our competitive edge through operational excellence, reduced operational costs and widening our customer base. We also expanded our inland sales by adding new customers and growing existing channels.



Note: Photo taken prior to MCO which started on 18 March 2020.

PERFORMANCE UPDATES UNDER OUR REDEFINED STRATEGIC FRAMEWORK



People & Leadership

We continually uphold the belief that the people of HRC are our most important asset and the strongest driver of sustainable growth. We aspire to sustain resilient and respectful performance by ensuring their well-being through open and honest communication, frequent engagement, recognition of contributions, talent development and inclusive succession planning.

STRATEGIC DIRECTION 1

Nurture a Healthy Company Culture

Towards uplifting company culture, we continue to instil core values of Integrity, Collaboration, Accountability, Entrepreneurial and Respect in all communication with our people. As a follow through on the company-wide People Survey 2019 outcomes, action was taken to create further understanding and awareness on Company Values through strengthened engagements with employees.

New engagement channels implemented during the year included a quarterly virtual townhall, quarterly QHSSE e-newsletter, monthly CEO e-letter and afternoon chats with the Leadership Team. As many employees worked from home during the year due to the MCO, the CEO monthly e-letter to employees acted as another important channel for updates on refinery operations. The virtual afternoon chats allowed all employees working from home to interact with the Leadership Team remotely.

PERFORMANCE REVIEW

STRATEGIC DIRECTION 2

Enhance Human Resource (HR) Function Capability and Execution

To better enhance the depth and width of our HR specialists' capabilities, a HR Business Partnering approach was adopted, and a Centre of Excellence (COE) established. This enabled the Company's HR specialists to contribute more dynamically to business units by focusing on strategic and proactive work matters, and developing policy and processes to support the business.


STRATEGIC DIRECTION 3

Strengthen Employee Value Proposition and Talent Management

Employee turnover decreased in FY2020. HRC continued to provide job stability for all employees and invested in strengthening our Employee Value Proposition through training and development.

Employees benefited from a total of 17,746 training hours conducted during the year, an average of 48 hours per employee. This is a marked increase from FY2019 as on-the-job training was also added to the total training hours for 2020. There was an escalation of online training classes, encompassing both technical and non-technical skills, to cater to the increased number of work from home employees.

Another key effort made towards enhancing talent management was a thorough review and assessment of the current talent pipeline. This has resulted in the identification of key talents for future career paths and will positively impact HRC's business continuity and sustainability plans.

 For more details on our Human Resource initiatives, please refer to page 43 of our Sustainability Report 2020.



Operational Excellence

In the refining business, operational excellence encompasses reliability, effective work processes, cost efficiency, refining margins and product quality. HRC's on-going improvements and focus on defect elimination continued to ensure good business performance. HRC generally experienced high reliability performance for most of the year but could not meet the target set for unplanned downtime (UPDT) of 2.6 per cent.

4.6 per cent of UPDT was recorded in 2020 due to new challenges that happened for the first time in HRC's history, such as the LRCCU experiencing an all-instrument air compressor trip simultaneously. As a learning organisation with mature experience and work processes, work was done to implement the right solution and prevent re-occurrence.

STRATEGIC DIRECTION 1

Continuous Improvement in Plant Availability

The following activities were carried out to improve plant availability for the year under review and contributed to our achievement of 95.4 per cent plant availability:

- Strengthening management process with prioritisation given to top threats.
- Following up on the asset risk prioritisation process and establishing four reliability task forces to focus on Maintenance Execution (ME) Process Improvement, Pump and Motor Rework Improvement, Chloride Management, and Instrumentation Protection Function (IPF) robustness.
- Improving jetty reliability.
- Execution of the Asset Rejuvenation Master Plan (AMP) to better manage obsolescence.
- Engineering Key Performance Indicator (KPI) monthly reporting for gap analysis and improvement tracking.
- Sharing of knowledge and learnings from incidents to prevent future recurrence.

STRATEGIC DIRECTION 2

Continuous Improvement in Product Quality

There were several highlights achieved in being responsive to meeting customer expectations and product quality requirements during the year under review. As jet fuel demand had dropped significantly due to the COVID-19 situation, immediate efforts were undertaken to maximise blending of jet fuel components as diesel to ensure the refinery continues to produce products that are in line with the communities' and market's needs.

In addition, the assessment and execution of product quality certification for U95 Sulphur and Gasoil Distillation specifications via on-line analysers were completed in the first quarter. This provides enhanced product quality assurance and is also favorable from an economic angle to the refinery.

There were three (3) Product Quality Reliability Incidents (PQRIs) in FY2020. However, these were identified and addressed early on so all customers continued to receive products that met their expectations. Zero product Quality Incident was targeted and achieved through key product quality initiatives such as:

- A Process Effective Review (PER) to assess the site's Ensure Quality Product (EQP) process.

- A shift engagement with the site’s frontliners conducted by Product Quality focal points to share key learnings, relevant EQP concepts and how frontliners play a role in enabling the work process.
- Maintenance of an on-site register of product quality risks and their controls. This allows identification and appropriate management of product quality assurance barriers which enable product quality risks to be mitigated accordingly.
- Operationalising a monthly health check framework in identifying improvement gaps and actions for closure. No major findings were identified for assessment in FY2020.

STRATEGIC DIRECTION 3

Sustain HRC’s Laboratory’s Operational Excellence

During the year, a high level of performance in lab testing was achieved by HRC’s laboratory through the lab testing assurance programme, monthly monitoring and close collaborations with the operations team. This was to assure the quality of lab testing in HRC meets or surpasses industry standards.

As a result of these sustained efforts, there were no product quality incidents in FY2020. All products were delivered to customers as per the expected specification. HRC met all product quality targets.

 For more details on our product quality, please refer to page 19 of our Sustainability Report 2020.

STRATEGIC DIRECTION 4


Initiate Energy Improvement Masterplan

The year saw the initiation of HRC’s long-term energy masterplan towards driving our energy performance into the Second or First Quartile of Solomon Associates’ benchmarking standard for refineries energy performance.

We target a combined Energy Intensity Index (EII) reduction of 14.5 pts by 2027; and aimed for the annual EII target of 110.4.

As part of the Masterplan, initiatives launched towards enhancing energy efficiency during the year under review included improving furnace efficiencies by optimising excess oxygen in flue gas, reducing fuel usage via utilising improved process control and automation, continually optimising overall refinery fuel supply and demand balance to ensure the most optimal energy mix.

In spite of the above, the FY2020 EII index increased from FY2019’s 110.9 to 116.9. This was due to lower refinery throughput due to the COVID-19 situation. Additionally, there were reliability incidents which resulted in sub-optimal fuel usages. On-going efforts are being implemented to ensure the refinery achieves the future EII target as planned.

 For more details on our Energy Management initiatives, please refer to page 40 of our Sustainability Report 2020.



HSSE & Compliance

HRC is committed to provide a secure and respectful working environment for the well-being of our employees and business partners while respecting our neighbors and contributing to the community at large. We embrace Quality, Health, Safety, Security and Environment and Social Performance (QHSSE & SP) as a core commitment in all our business activities. We strive for personal safety, process safety, security, compliance as well as focus on protecting the environment, health of our stakeholders and business sustainability.

During the year, we recorded three (3) Total Recordable Cases (TRC) in FY2020, with one Lost Time Injury (LTI), one Restricted Work Case (RWC) and one Medical Treatment Case (MTC). We also recorded one Spill with Tier 2 response and three (3) API Process Safety events with one API Tier 1 and two API Tier 2 Events.

In terms of safety performance, throughout the year, HRC achieved safe execution of major projects with zero major incidents at our Euro 4M, Euro 5 Gasoil and H2GEN project sites. However, one LTI was recorded in FY2020 due to an accident during caustic unloading at the Effluent Treatment Plant (ETP). This incident has reset our LTI Free Manhours from our previous record of 10.1 million.

Following each incident, a Causal Learning investigation protocol was conducted to uncover the root causes, and recommendations were translated into action items in reports distributed to all concerned parties.

Notwithstanding these incidents, we are confident that we remain well anchored in good QHSSE fundamentals, having won top tier recognition from the prestigious Prime Minister Hibiscus Award and Joint State Award for Negeri Sembilan, which is a solid testament to our QHSSE performance within the oil and gas industry in 2020.

PERFORMANCE REVIEW



HRC is certified for:

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

STRATEGIC DIRECTION 1

Goal Zero Safety Performance

We remain mindful that building a safety culture is an on-going process and have established the following initiatives to help create awareness of safety goals. Due to the pandemic, some of these initiatives have been transformed to virtual events and new channels have been introduced.

- **Assurance Walks:** Whenever possible, the Leadership Team “*Turun Padang*” HSSE Walkabout, Daily Goal Zero Walk and Weekly CEO Walk-the-Site continued to serve as a pulse check on the current health of our HSSE standards implementation as well as COVID-19 Standard Operating Procedures compliance on site. These walks provide opportunities to identify potential hazards and proactively mitigate them before accidents occur and for leaders to engage with employees and contractors on HSSE matters.
- **Safety Campaigns:** For FY2020, safety campaigns and the annual Safety Day were conducted online to continue to raise site’s safety awareness among employees and contractors and address site-wide concerns on HSSE matters. We also introduced new campaigns and initiatives during the year for continued awareness such as “*Feel the Field*” initiative, CEO HSSE Award of the Month and iCARE4Safety campaign.
- **“UNZIPPED”:** A quarterly QHSSE e-newsletter was launched in May 2020 in adaptation to the new normal. It shares information related to QHSSE matters, latest updates and new upcoming QHSSE initiatives whilst keeping the content engaging for the readers.
- **Intervention:** To encourage on-site intervention, a monthly CEO Award catalysing this positive trend was introduced. This is an enhanced version of the previous Near Miss Potential Incidents (NMPI) Heroes initiative.

Monthly winner was selected and the grand final winner received the CEO HSSE Award of the Year during the Safety Day event. Though the NMPI register for site-wide key performance indicators was not explicitly steered in FY2020 as per previous years, HRC recorded a healthy NMPI reporting of 4,723 for the year. This was commendable given the disruption of Assurance Walks due to COVID-19 and the fact that there were no turnarounds scheduled.

- **Training Programmes:** HRC’s QHSSE team conducted 26 training sessions during the year covering crucial structured training such as Permit to Work Level 1 & 2, as well as specific qualifications training such as Lifting Engineer and Supervisor, Safety Handling of Chemical (SHOC) Training, Authorised Gas Tester and Entry Supervisor, and Authorised Entry and Standby Person competency training courses.
- **Emergency Preparedness and Response Training:** Frequent training and drill sessions were executed during the year to ensure the preparedness of the Emergency Management Team. The scenarios encompassed Oil Spill response as well as emergency first aid and fire drills, where focus was given to tank fire scenarios.
- **Refreshed Process Safety Framework:** A roll-out of a refreshed Process Safety Management Framework was developed in December and this paves the way for elevated process safety performance in 2021.

STRATEGIC DIRECTION 2

Environment Link to License to Operate

Water is a valuable resource and HRC consistently works towards optimised water usage and waste water management to protect natural resources and mitigate against negative environmental impact. The year has made us mindful that HRC is subjected to risk of water supply disruption from our raw water supplier. Having experienced a major water disruption from our regular supplier, HRC had to bring in water from an alternate supplier on an emergency basis and at significant cost to ensure continuity. Efforts are on-going to improve supply and availability robustness to support HRC’s raw water needs.

- In FY2020, we continued to track water usage very closely and optimise water consumption in various parts of the refinery. This includes optimising water usage at specific high-consumption equipment and maximising recycling of water. However, raw water consumption in FY2020 was higher than FY2019 by 0.2 million m³ due to the startup of a new Wet Gas Scrubber in late 2019 (in compliance with the Clean Air Regulations). Our effluent water also continues to comply to all the parameters under the Environmental Quality (Industrial Effluent) Regulations 2009.
- HRC has a comprehensive in-house capability for Oil Spill Response with immediate action to be taken accordingly. We recorded one (1) Oil Spill in FY2020 where HRC's Emergency Management Team was triggered for Tier 2 Response and HRC immediately deployed aid and worked with local authorities to contain and stop the leak. Actions were taken to ensure relevant risks are addressed to prevent any recurrence of the incident.
- A "Cleaner Air for All" environment campaign was conducted in the month of September 2020 with the aim to raise awareness and share information related to the new Clean Air Regulation 2014. In the spirit of the new normal, the virtual campaign hosted an online Environment chat session called "Borak Santai" with in-house panellists to discuss on the implementation of green initiatives at home and improvement of the Company's environmental performance.



Stakeholder Value

HRC's redefined strategic framework positions stakeholder value as an important focus area. We intend to deliver sustainable value to all stakeholders including our shareholders and investors. In FY2020, we focused on further strengthening our cash flow, driving costs down in financing and contract deals, and implemented further protection of margins. Investments in automation were also explored for more accurate and cost-efficient processing.

Beyond this, we are committed to be socially responsible in our business affairs and make a positive contribution through social investment. As a refinery, we continuously maintain a responsive community feedback mechanism and commit to acknowledging complaints immediately any hour of the day or night and addressing complaints as soon as possible. Other ways we engage with the community are through outreach programmes, community engagement activities and

festive celebrations with our neighbours. However, in view of COVID-19 pandemic, most of the activities had to be scaled down and strict preventive measures were observed to protect the health and safety of our community.

STRATEGIC DIRECTION 1

Continuous Business and Productivity Improvement

Initiatives implemented in FY2020 under this strategy included:

- Continued pursuit of HRC's Business Improvement Plan (BIP) to debottleneck the plant's constraints to enable higher margin generation. Execution of BIP tactics progressed well during the year and yielded good benefits.
- Growing crude intake capacity and widening of operating windows.
- Automating work processes to unlock greater efficiencies and cost savings. In FY2020, the in-house digitalisation of Incident Management and Assurance Excellence (iMax) through office automation has enabled all reported incidents and their immediate, interim and long-term control measures to be tracked until closure in the incident tracking management systems, and contributed significant cost savings of RM170,000 per annum.

The focus on business process automation is an on-going process in HRC.

STRATEGIC DIRECTION 2

Optimise Margins and Operational Expenditures (OPEX)

Initiatives implemented in FY2020 under this strategy included:

- Increasing commercial value through hedging product cracks and inventory value. This managed to provide financial protection through a challenging pandemic year.
- Actively reviewing production planning based on margin and demand, and as part of optimisation, we have taken the initiative to reduce production when margin was not favourable.
- Increasing overall product value by reducing Jet-A1 production by reoptimising middle distillates blend and outlets, and maximising Propylene production.
- Assessment and implementation of margin optimisation initiatives in on-going projects.
- Focused on cost optimisation of third party spending to achieve structural cost decrease.


PERFORMANCE REVIEW

STRATEGIC DIRECTION 3:

Strengthen CSR and External Stakeholders' Engagement

Due to the economic effects of the pandemic and MCO restrictions, HRC had to reduce physical gatherings and community engagements during the year. However, we were steadfast in maintaining our engagement channels and, when required, continued our face-to-face engagements in strict adherence to the Government's standard operating procedures (SOP).

- Good rapport with our neighbours was maintained during the year. Several engagements were held to manage concerns from our neighbours through our community feedback mechanism. There were public complaints received on noise and intermittent black smoke that arose from maintenance activities, management of plant upsets and emergency plant situations. All of these complaints were quickly addressed and resolved.
- There were continued engagement sessions with fence line communities to address concerns and engage with the residents by sharing relevant operational updates and insights.
- We continued with our annual contributions of festive treats to underprivileged groups during traditional celebrations, albeit on a smaller scale, and strict COVID-19 preventive measures were observed during the event.

 For more details on our Community Engagement initiatives, please refer to page 49 of our Sustainability Report 2020.



Future Focus

HRC's goal is to create and assure a sustainable and strong foundation for profitable future business. We actively scout possible long-term growth options and work to ensure agile operations in a changing business environment.

STRATEGIC DIRECTION 1:

Drive Readiness for Euro 4M and Euro 5 Gasoil Roll-out

Initiatives implemented in FY2020 under this strategy included:

- Minimising margin impacts from late delivery.
- Euro 4M – Maximise blending of high sulphur Catalytic Cracked Gasoline (CCG) into Mogas pool.
- Commence planning and preparation for Turnaround 2023 to optimise on productivity savings.

UPDATES ON KEY INVESTMENT PROJECTS



Euro 4 Mogas (Euro 4M)

The Euro 4M project is crucial for the sustainability of the business to meet the new Malaysian petrol specification requirements, and will allow the refinery to continue optimising its crude slate to be commercially competitive. The plant uses a combination of hydro-processing and liquid extraction technology that has been applied successfully by the licensor in various operating plants in China, and when completed, will have a production capacity close to 1.2 million tonnes per year.

CURRENT STATUS:

Due to the COVID-19 pandemic and consequent international lockdowns, the Euro 4M project is expected to be completed in the third quarter of 2021. The delay is not expected to have any significant adverse effects to the Company's operations and its ability to supply to the market. We have put in place proper mitigation plans and have managed to catch up in project progress.

The Malaysian Government mandated the switch to Euro 4 standard for Mogas effective 1 January 2020. The Company has been able to produce some volumes of Euro 4 Mogas based on the plant's existing configuration and is fulfilling its supply obligations to customers.



EURO 5 GASOIL

The Malaysian Government deferred the mandated implementation date for Euro 5 Gasoil specification compliance from 1 September 2020 to 1 April 2021. Upon completion, the refinery will be able to refine higher sulphur crudes than at present, which could potentially produce higher refining margins.

CURRENT STATUS:

The stringent border controls in Malaysia and other countries have delayed the arrival of major equipment and technical experts, especially from overseas. However, the Company has put in continuous efforts to minimise the risk of delays and is working towards expediting the deliveries.

We have managed to catch up on all the above delays by implementing proper mitigation plans.

In March 2021, HRC successfully implemented Euro 5 Gasoil before the stipulated due date.



H2GEN Project

The H2GEN project is developed to produce hydrogen by taking natural gas from the national oil and gas company, as feedstock. This is in anticipation of a heightened need for hydrogen upon the start-up of the Euro 4M and Euro 5 Gasoil projects when hydrogen will be needed to desulphurise Mogas and Gasoil components.

CURRENT STATUS:

Despite challenges, we have managed to catch up on the project slippage and the project is currently on track to complete as per schedule to coincide with the Euro 4M and Euro 5 Gasoil specification completion date.

STRATEGIC DIRECTION 2:

Strengthen Internal Work Processes

Initiatives implemented in FY2020 under this strategy included:

- Introduction of a dynamic Office Automation Portal, to improve our internal work processes.
- Review of existing work processes to ensure that they are lean and effective.

FINANCIAL REVIEW

MARGIN AND FINANCIAL PERFORMANCE

In the year under review, HRC posted a profit after tax of RM251.0 million, a six-fold increase from the profit after tax of RM35.0 million recorded in FY2019. Refining margins and crude prices continued to remain volatile during the year, resulting in a full year average Current Cost of Stock margin (CCS) of USD5.23 / bbl (FY2019: USD2.49 / bbl) and First-In, First-Out (FIFO) margin of USD2.68 / bbl (FY2019: USD3.32 / bbl) including the effects of crack swaps.

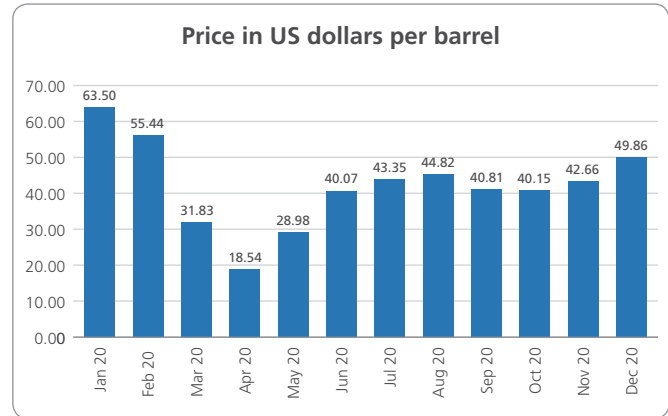
Further analysis of the financial performance is as follows:



Revenue and Gross Margin

HRC recorded a revenue of RM7.2 billion in FY2020, lower by 43.2 per cent compared to the revenue of RM12.6 billion in FY2019. This was mainly caused by lower sales volume of 35.1 million bbls in FY2020 (FY2019: 41.9 million bbls), coupled with lower product selling prices which averaged at USD48 / bbl in FY2020 (FY2019: USD76 / bbl), as a result of the implementation of lockdown and travel restrictions by numerous countries in order to curb the spread of COVID-19.

BRENT OIL PRICE



In FY2020, the price of Brent crude oil averaged at USD42 / bbl, USD22 / bbl lower than its FY2019 average. Brent crude oil traded within relatively narrow price ranges throughout the year, with the lowest at USD19 / bbl and the highest at USD64 / bbl. This was mainly caused by the pandemic, which triggered an unprecedented demand shock in the oil industry and led to a historic market collapse in oil prices. The demand for oil reduced significantly as governments around the world shuttered businesses, issued stay-at-home mandates and restricted travel. However, oil prices began to rebound towards the end of mid-2020 as nations emerged from lockdown coupled with the effect of OPEC's agreement to significantly cut crude oil production. By year end, optimism over the possible rollout of multiple COVID-19 vaccines buoyed the market and oil prices started to increase.

Stockholding gains for FY2020 (including the effects of commodity swaps) were USD5.25 / bbl (FY2019: USD1.17 / bbl).

The hedging strategy undertaken by the Company has protected the Company's FIFO margin from eroding although the Company faced internal and external factors such as plant operational issues and market volatility. Effects of crack swaps for FY2020 helped to uplift the gross profit margin by an average of USD5.75 / bbl.

Business improvement tactics delivered a value of USD36.3 million (FY2019: USD52.9 million). This was attributed to crude optimisation of USD10.1 million, product optimisation of USD18.6 million, refinery process improvement of USD6.5 million and spend optimisation of USD1.1 million.

Average CCS margin for the year was USD5.23 / bbl compared to USD2.49 / bbl in FY2019. The Company's CCS margin has moved to positive territory, contributed by improved products cracks as global markets recovered.

PERFORMANCE REVIEW



Income and Expenses

The Company recorded higher operating expenditure by RM19.4 million from RM287.9 million in FY2019 to RM307.3 million in FY2020. This primarily resulted from the recognition of allowance for doubtful debts amounting to RM26.2 million for Hin Leong Trading (Pte.) Ltd., which was partly offset by the spend optimisation during the year. Other operating gains were higher due to positive fair values of RM300.4 million recognised from the commodity swaps, whereas the Company recorded a negative fair value of RM48.6 million in FY2019. The utilisation of reinvestment allowance and recognition of deferred tax assets on tax losses previously not recognised was offset against the taxable profits as of 31 December 2020, resulting in lower taxation.

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

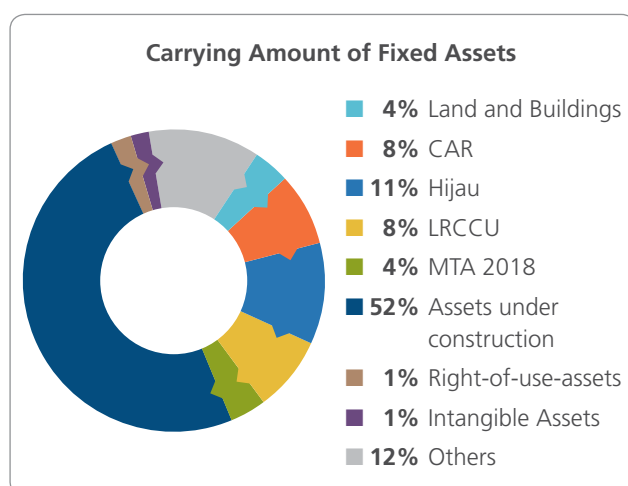
The overall impact resulted in profit after tax increasing by 617.4 per cent or RM216 million as compared to FY2019.



Total Assets and Liabilities

Total assets decreased 20.4 per cent or RM1.2 billion from the previous financial year. Details of the total assets of RM4.5 billion in FY2020 is set out below:

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



- The valuation basis of these assets is as stated in our accounting policies.
- The Company's current assets comprise of derivatives that have maturity of less than 12 months, inventories, receivables and cash. Current assets have decreased from RM3.7 billion to RM2.5 billion, a decrease of 33.0 per cent as compared to FY2019. The decrease is mainly attributable to decrease in inventory and cash balances as at year end. Inventory balances decreased by 29.5 per cent or RM439 million mainly due to lower crude price resulted from the lockdowns implemented by most countries in response to COVID-19 pandemic which led to the sharp decline in the global fuel demand.

Total liabilities have decreased by 36.0 per cent or RM1.3 billion from RM3.6 billion to RM2.3 billion in FY2020. Further details are set out below:

- Current liabilities comprise mainly of payables, derivatives with maturity less than 12 months, revolving credit and a portion of lease and term loan balances that are repayable within the next 12 months. Trade payables mainly relate to payables for crude purchases and payables relating to capital expenditure. Trade payables are lower in FY2020 due to the timing of crude payments and capital expenditure.
- Non-current liabilities comprise of leases, term loans, deferred tax liabilities and derivatives with maturity of more than 12 months. Term loans are repayable over a two (2)-year period, denominated in USD and are secured by way of charges on the Company's assets.



Cashflow

Cash generated from operating activities was utilised mainly for capital investment purposes for projects including Euro 4M, Euro 5 Gasoil and H2GEN, partial repayment of term loans and borrowings, and servicing the interest charges. Hence, the cash balance as at the end of the year was lower at RM683.8 million compared to RM1.0 billion in FY2019.








Dividends

On 26 February 2021, the Directors declared a single-tier interim dividend of RM0.04 per share, amounting to RM12,000,000 in respect of the financial year ended 31 December 2020. The dividend is payable on 15 April 2021 to shareholders registered on the Record of Depositors at the close of business on 23 March 2021. These financial statements do not reflect the interim dividend which will be accounted for in the financial year ending 31 December 2021.

FY2020 KEY PERFORMANCE INDICATORS (KPIs)

Our KPIs assess the performance of the Company across all aspects of operations in a balanced Business Performance Scorecard. Non-financial indicators include measures of production and reliability, safety, commercial relevance, sustainability and governance. Financial indicators cover margin, financial performance and return on investment. Additional KPIs tied to sustainability are elaborated in our Sustainability Report 2020, which is available on our website at <http://hrc.com.my/sustainability-report.html>.

		2020	2019	2018	2017	2016
 SAFETY	Million Exposure Hours Worked	3.2	4.5	3.5	2.0	1.3
	Lost Time Injuries (LTI)	1	0	0	0	1
	Process Safety Events (API Tier 1)	1	0	1	1	1
	Process Safety Events (API Tier 2)	2	2	1	0	2
	First Aid Cases (FAC)	6	6	11	5	1
 PRODUCTION & RELIABILITY	Operational Availability %	95.4	96.3	79.4	97.4	82.1
	Unplanned Downtime (UPDT) %	4.6	3.7	3.1	2.3	7.2
	Production Volume (million bbl)	34.2	38.8	32.5	39.7	37.5
 MARGIN & FINANCIAL PERFORMANCE	Refining Margin (FIFO) (USD / bbl)	2.7	3.3	3.0	8.4	5.5
	Sales Volume (million bbl)	35.1	41.9	35.2	41.1	39.0
	Revenue (RM million)	7,176	12,637	11,241	11,583	8,365
	Profit After Tax (RM million)	251	35	31	930	335
	Cash Generated From / (Used in) Operations (RM million)	435	1,259	380	477	(5)
	Quick Ratio	0.9	0.8	1.0	2.5	1.8
 RETURN ON INVESTMENT	Shareholders' Funds (RM million)	2,168	2,011	2,022	1,789	1,010
	Earnings Per Share (sen)	84	12	10	310	112
	Return on Average Capital Employed (times) (EBIT / (Average total assets-average current liability))	0.1	–	–	0.4	0.2
 SUSTAINABLE DEVELOPMENT	Energy Intensity Index (EII)	116.9	110.9	111.7	111.5	114
	Effluents – Average Oil in Water Concentration (avg mg / l)	1.7	1.0	1.0	1.2	0.9
	Waste Management					
	• Effluent Treatment plant (ETP) Sludge (MT)	328	305	184	663	624
	• Spent Oil Water Emulsion (MT)	1,102	1,374	2,175	1,794	1,835
	Public Complaints	10	5	3	5	2
	Social / Community Project Investment (RM'000)	19.6	66.2	68.8	41.9	52.4

RISKS & OPPORTUNITIES

STRATEGIC RISKS AND OPPORTUNITIES

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

Oil Price Dynamics, and Supply / Demand Movements

HRC is impacted by crude oil price volatility, the oversupply of products in the region due to new competitor refineries, and weak global demand. The COVID-19 pandemic resulted in significant impacts that caused a decrease in the demand for oil refinery products. Prolongation of the pandemic situation can influence oil prices and oil refining margin. However, oil pricing volatility creates both risks and opportunities which can be harnessed with hedging tools. HRC has been successful in turning this volatility into an opportunity through its active use of hedging mechanisms.

Industry Trends

As the future outlook for oil and gas indicates a general long-term decline in petrol consumption and moving away from hydrocarbon fuels, HRC is preparing itself to adapt and evolve into new areas of growth that include capturing opportunities in petrochemicals and new energy solutions.



Note: Photo taken prior to MCO which started on 18 March 2020.

COMPANY-RELATED RISKS AND OPPORTUNITIES

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

Asset Integrity

The oil refining business has several inherent risks associated with personal and process safety and asset integrity, among others. HRC applies and continues to enhance best practices to manage all these risks.

Project Risks

All HRC on-going projects include risk assessments and technical and construction risk mitigations. HRC expects to complete and commission all major key projects: Euro 4M and H2GEN in 2021.

Margin and Commercial Risks

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

Cleaner Energy Opportunities

HRC noted the general trends towards higher demand for cleaner energy and a potential slowdown in demand for hydrocarbon transport fuels. Strategic planning was formulated by looking into options for future investment into petrochemicals and new energy solutions to add on to our existing product offerings.

MOVING FORWARD

According to MIDF Research, the oil and gas industry demand recovery remains fragile as new COVID-19 cases surge while oil supply is expected to remain in excess going into the first half of 2021. Brent crude price is expected to average at USD51 / bbl next year.

As fresh sets of lockdowns in several countries continue to derail demand recovery, MIDF Research anticipates that major recovery can only begin in the second half of 2021, should the pandemic be well-contained worldwide and vaccination programmes launched.

The industry is expecting the Organisation of the Petroleum Exporting Countries Plus allies (Opec+) to continue restricting supplies into 2021 to help stabilise oil price while demand gradually recovers to pre-COVID-19 levels.

All in all, MIDF Research is maintaining its 'neutral' stance on the sector for the upstream and downstream sub-segments, given that the sector will continue to be susceptible to the on-going development of the pandemic.

Both upstream oil producers and oil and gas service providers will also have to balance future growth and business sustainability while they navigate through the current adverse operating environment going into 2021.

Where opportunities are concerned for the domestic market, the outlook for the oil market will depend on the efforts of the Government to contain the COVID-19 pandemic and government spending to boost local economic activities.

2021 OIL AND GAS SECTOR TRENDS

Pivoting to the new energy future could be tough and may require companies to make bold choices. The following lists important signposts for O&G companies in deciding their strategy and direction in 2021:


- Reduction of operating costs
- Maintaining agility and flexibility in operations
- Acceleration of digital transformation
- Optimising capital allocation for clean energy transition plans
- Changes in end-use demand patterns and supply composition
- The rise of environmental, socially responsible and impact-focused investing
- An adoption of new talent strategies to succeed in the future of work
- Consolidation in a low-priced environment

Source: Deloitte oil and gas industry outlook

For HRC, 2020 was a year of responding to unprecedented challenges. The next few years will be focused on completing the construction of our key projects while harvesting profits and benefits, and fine-tuning the business. Further in the future, sustainable energy remains a key agenda. HRC will stay committed to the long-term and stable supply of refined products and continue to realise its vision of focusing on petrochemicals and new energy solutions.

As we move into 2021, our key focus will be on the following areas:

1. **Personal and Process Safety.** Avoid any injuries or process safety incidents by continuously enhancing a proactive safety culture.
2. **Asset Reliability.** We aim to put significant effort to improve refinery availability.
3. **Major Projects Completion.** Complete all on-going major projects successfully according to the planned schedule, and work towards starting up the plants seamlessly.
4. **Values, Costs and Profitability.** Work with our values and to assure the best interest for HRC. We are cultivating a cost-conscious mindset and will continue to challenge, develop and improve current work processes as well as to find ways to improve plant profitability.
5. **Competencies.** Improve our competencies to meet the refinery's operational needs. We are targeting to be equipped with relevant knowledge and to keep upgrading our skills. Succession planning, experience and information sharing with team members are the other main focus areas.



HSSE & Compliance

03



Our focus on quality and safety remains uncompromised as we maintain strong focus in:

- People safety • Process safety • Security
 - Environment • Health • Sustainability • Compliance
-



Note: Photo taken prior to MCO which started on 18 March 2020

HERE TO STAY, HERE TO GROW

WITH RESILIENCE & RESPECT

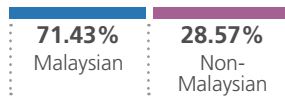
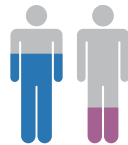
BOARD OF DIRECTORS' PROFILE

BOARD DIVERSITY

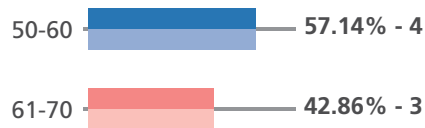
Ethnicity



Nationality



Age Group



Wang, YouDe

Chairman
Non-Independent
Non-Executive Director

Age 58 • Chinese • Male

Date of Appointment 22 December 2016

Academic Qualification

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

Experience

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

Directorship of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

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

Wang, ZongQuan

Deputy Chairman
Non-Independent
Non-Executive Director



Age 58 • Chinese • Male

Date of Appointment 22 December 2016

Academic Qualification / Professional Membership

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

Experience

Over 30 years of experience in production management, units installation, projects construction and enterprise management of the petrochemical business including as:

- Deputy General Manager, Shandong Hengyuan Petrochemical Company Limited (2002-present)
- Various leadership positions in refining, units installation and management departments of the petrochemical business in Shandong Hengyuan Petrochemical Company Limited including as Head of the Equipment Control Department of an installation engineering company within the Group (1988-2002)

Directorship of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

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

Alan Hamzah Sendut

Independent
Non-Executive Director



Age 61 • Malaysian • Male

Date of Appointment 25 May 2017

Academic Qualification

- Bachelor of Science Hons (Accountancy and Computer Science), University Of Wales, Aberystwyth, United Kingdom
- Chartered Accountant, Institute of Chartered Accountants England and Wales (ICAEW)

Professional Memberships

- Chartered Audit Committee Director, Institute of Internal Auditors Malaysia
- Member of the Malaysian Institute of Accountants
- Fellow of the Institute of Corporate Directors Malaysia
- Qualified Risk Director, Institute of Enterprise Risk Practitioners

Experience

- 35 years of finance and business experience across multiple industries
- 25 years in C-Suite / Senior Manager roles in companies involved in motor and heavy equipment distribution, manufacturing, plantation, corporate strategy, corporate finance, and mergers and acquisitions, including as:
 - Group Finance Director, Tractors Malaysia Holdings Berhad (1996-2001)
 - Group Finance Director, Consolidated Plantations Berhad (2002-2004)
 - Executive Vice President, Group Corporate Finance, Strategy and Business Development, Sime Darby Berhad (2010-2014)
 - Managing Director, Energy and Utilities (Non-China) Division, Sime Darby Berhad (2015-2016)
- Served with PriceWaterhouse, London, United Kingdom (1982-1986)

Directorship of Other Listed Issuers / Public Companies

- Hong Leong Islamic Bank Berhad
- Khyra Legacy Berhad
- Tradewinds Plantations Berhad

Membership of Board Committees in HRC

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

BOARD OF DIRECTORS' PROFILE

Fauziah Hisham

Independent
Non-Executive Director



Age 65 • Malaysian • Female

Date of Appointment 1 June 2017

Professional Membership

- Associate of The Chartered Governance Institute, United Kingdom
- Qualified Risk Director, Institute of Enterprise Risk Practitioners

Experience

- Over 30 years of experience in the banking industry with various leadership roles, including as:
 - Chairman of the Board of Directors, J.P. Morgan Chase Bank Berhad (2015-2018)
 - Country Group Representative & Executive Director, Institutional Banking, Australia & New Zealand Banking Group Ltd (2008-2014)
 - Managing Director, Strategic Client Coverage Group, Standard Chartered Bank Malaysia Berhad (2006-2008)
 - Chief Executive Officer, J.P. Morgan Chase Bank Berhad (2002-2006)

Directorship of Other Listed Issuers / Public Companies

- Agensi Kaunseling & Pengurusan Kredit (a subsidiary of Bank Negara Malaysia)
- Malayan Banking Berhad
- Maybank Philippines Inc
- Maybank Trustees Berhad

Membership of Board Committees in HRC

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

Liang Kok Siang

Independent
Non-Executive Director



Age 65 • Malaysian • Male

Date of Appointment 1 June 2017

Academic Qualification

- Bachelor of Science Hons (Chemistry), University of Malaya

Professional Memberships

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

Experience

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

Directorship of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

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

Surinderdeep Singh Mohindar Singh

Independent
Non-Executive Director



Age 52 • Malaysian • Male

Date of Appointment 23 February 2019

Academic Qualification

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

Experience

- Head of Enterprise Business and Solutions in Celcom Axiata Sdn Bhd (2017-2018)
- 24 years with the Shell Group of Companies, including as:
 - General Manager, Strategy and Portfolio, Shell Malaysia Ltd (2014-2016)
 - General Manager, Shell Marine Products (2009-2014)
 - Managing Director, Shell India Marketing Private Limited (2007-2008)
 - Vice President Director, Shell Indonesia (2004-2006)
 - Various leadership positions, including Regional Retail Manager, Operations Excellence Manager and Site System Technical Analyst with Pilipinas Shell Petroleum Company and Shell Malaysia Trading Sdn Bhd (1993-2004)

Directorship of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

- Chair of Board Nominating and Remuneration Committee
- Member of Board Audit Committee
- Member of Board Projects Review Committee

Loy Swee Im

Non-Independent
Non-Executive Director



Age 52 • Malaysian • Female

Date of Appointment 18 August 2020

Academic Qualification

- Professional Qualification in Management Accountancy, Chartered Institute of Management Accountants

Professional Memberships

- Fellow, Chartered Institute of Management Accountants
- Member, Malaysian Institute of Accountants
- Member, Certified Practising Accountants (Australia)

Experience

- Over 25 years of experience in the finance, corporate finance and business operations with various leadership roles, including as:
 - Chief Executive Officer, Hengyuan International Sdn Bhd (February 2020-present)
 - Chief Operating Officer, Finance Director, Head of Business Unit, Group Financial Controller, Tan Chong Motor Group (2011-2020)
 - Chief Financial Officer, Scomi Oiltools Group (2009-2011)
 - Chief Financial Officer, Genting International Group (2008-2009)
 - Head of Finance, Scomi Marine / Scomi Group (2005-2008)
 - General Manager, Corporate & Finance, Salcon Berhad (2004-2005)
 - General Manager, Corporate Finance, WCT Engineering Group (1998-2004)

Directorship of Other Listed Issuers / Public Companies

None

Membership of Board Committees in HRC

- Chair of Board Risk Management Committee

NOTE:

Unless otherwise stated, all Directors have no family relationship with any other Director and / or major shareholder of our Company. They have no conflict of interest with our Company and have not been charged with any offence within the past 10 years.

MANAGEMENT TEAM PROFILE

Erkki Tapio Ranta

Chief Executive Officer

Age 57 • Finnish • Male

Appointed March 2020

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

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

Justin Quek Ting Chin

Chief Financial Officer

Age 49 • Malaysian • Male

Appointed October 2019

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

He has more than 25 years of extensive experience across financial management, accounting, audit, risk management, and senior level strategic planning. His professional career began with DFK International, followed by Sunway Construction Berhad and Leighton Offshore Pte Ltd. He was the Chief Financial Officer in GuocoLand (Malaysia) Berhad, Mah Sing Group Berhad and the Group Chief Financial Officer in TSLaw Holdings Group before assuming his current role in HRC.

Tan Wei Chen

Chief Operations Officer

Age 44 • Malaysian • Male

Appointed October 2020

Wei Chen holds a Bachelor of Chemical Engineering Degree from the University of Malaya. He started as a Technologist in HRC, and has more than 20 years' experience in oil and gas. His experience spans across technology, economics and scheduling, supply chain optimisation and operations.

He took on an expatriate assignment in Singapore as Refinery Planner from 2006 to 2010. Since then, he has held several managerial and leadership positions, and also achieved several key milestones. These span from organisation effectiveness improvement projects, major refinery turnarounds, hydrocarbon management review and cash uplift program, introduction of new process units like Hydrodesulphurisation 2, process units to meet Clean Air Regulation, the transition to HRC and many others.

William Chen Jung Huei

Chief Commercial Officer

Age 48 • Taiwanese • Male

Appointed April 2017

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

He began his career with Formosa Plastics Group, Taiwan in 1999, and has over 19 years of commercial experience including being a crude oil trader, a trading manager of naphtha supply and a general manager of petrochemical feedstocks.

Zulhazmi Mohamad

Chief Government Relations Officer

Age 50 • Malaysian • Male

Appointed March 2019

Zulhazmi holds a Bachelor of Electrical Engineering (Hons) Degree from the University of Southampton, United Kingdom. He joined the Company in 1994, and has held multiple jobs in projects, engineering, and maintenance over 24 years, including the detailed design and construction of the state-of-the-art Long Residue Catalytic Converter Unit (LRCCU) project. He was also involved in the design, construction, commissioning and startup of the HIJAU complex for HRC in Port Dickson.

He was the Company Engineering Senior Manager since 2011 and was appointed as Chief Projects Officer in 2018. He later assumed the role as the Chief Government Relations Officer in 2019. He supports the Company in mediating business and operational issues by advising and identifying relevant interventions and strategies.

Johan Jainudin

Senior Manager, Technology

Age 43 • Malaysian • Male **Appointed** February 2012

Johan holds a Degree in Chemical Engineering from University of Manchester Institute of Science and Technology (UMIST), United Kingdom, and is a Chartered Engineer of the Institution of Chemical Engineers (IChemE) and Engineering Council, United Kingdom.

He has 21 years of experience in the oil and gas industry across refining operations, engineering, process safety, project management and strategic planning. He started his career with PETRONAS in 1999. Subsequently, he moved to Shell Refining Company in 2012, and continued on with HRC in December 2016.

Zainudin Zulkifli

Senior Manager, Engineering

Age 57 • Malaysian • Male **Appointed** April 2020

Zainudin holds a Bachelor of Engineering Degree from University of Canterbury, New Zealand majoring in Mechanical Engineering and has been in the business of oil & gas, refinery and petrochemical and chemicals in the last 32 years. Prior to joining HRC he was a Chief Technical Office with Science-Tech Solutions Sdn Bhd and Chief Operating Officer with KNM Berhad Group of Companies.

He has also worked with BASF as the Site cum Manufacturing Director, served Shell Chemicals Seraya Pte Ltd, and was the General Manager for Wembley, Malaysia's pioneer boiler and pressure vessel manufacturer.

Zackaria Abdulah

Manager, Quality and HSSE

Age 41 • Malaysian • Male **Appointed** November 2012

Zackaria holds a Bachelor of Environmental Sciences & Management (Hons) Degree from the University of Malaya, and he is a certified Lead Auditor for ISO 9001, 14001 and 37001 schemes. He has over 18 years experience in the field of HSSE and Quality Assurance, with expertise in HSSE regulatory compliance, management systems, incident investigation, risk management and emergency response.

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

Jenney Kuan

Head of Human Resources

Age 46 • Malaysian • Female **Appointed** August 2020

Jenney holds a Bachelor of Science (Honors) Degree in Human Development from the University of Putra Malaysia and a Master of Business Administration from the University of Lincolnshire and Humberside, United Kingdom. She is trained by Corporate Coach Academy for Certified Professional Coach Program, accredited by International Coaching Federation (ICF).

She has more than 20 years of extensive experience in Human Resources. Prior to joining HRC, Jenney was the Head of Human Resources for Turner International Sdn Bhd, and has worked with Deloitte Malaysia, BASF Asia Pacific Service Center, Green Packet Berhad and Maxis Communications Berhad.

Nur Izatul Fitri Hussein

Chief Internal Auditor

Age 38 • Malaysian • Female **Appointed** February 2018

Izatul holds a Bachelor's Degree in Accountancy (Hons) from Universiti Utara Malaysia and a Certification in Risk Management Assurance from The Institute of Internal Auditors Inc. She is a Certified Internal Auditor, Certified Fraud Examiner and Chartered Accountant with extensive experience in internal controls, enterprise risk management, corporate governance, compliance, fraud examination and forensic accounting.

She is a Chartered Member of The Institute of Internal Auditors Malaysia, member of the Malaysian Institute of Accountants and member of Association of Certified Fraud Examiners. She began her career as a consultant at Ernst & Young Advisory Services Sdn Bhd. She later joined several public listed companies from diverse industries as an Internal Auditor and Risk Officer.



Stakeholder Value

04

We care for the relationships we impact and seek to optimise the value we deliver to:

- Shareholders • Investors • Customers • Authorities
 - Government • Lenders • Suppliers • Neighbours
-



Note: Meeting held prior to MCO which started on 18 March 2020

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Hengyuan Refining Company Berhad (Company or HRC) is committed to upholding honesty, integrity and fairness in all aspects of its business and operations and ensuring that good corporate governance is practised as part of building a sustainable and long-term business.

In September 2020, the Company was recognised in the Minority Shareholders Watch Group (MSWG) Corporate Governance Awards 2019 as one of the top 100 companies for corporate governance disclosure, and rated number 52 among the top 100 companies for overall corporate governance and performance. In addition, HRC scored full marks in the FTSE4Good index review in December 2020 for governance. These achievements were accorded to the Company based on public information and disclosures in the financial year ended 2019. HRC shall continue its efforts in practising and promoting good corporate governance as part of the fundamental principles of the Company.

The Board of Directors (Board) is pleased to provide an overview of the Company's corporate governance practices during the financial year ended 31 December 2020 (FY 2020) in accordance with the Main Market Listing Requirements (MMLR) of Bursa Malaysia Securities Berhad (Bursa Malaysia) and the Malaysian Code on Corporate Governance (MCCG). This statement is to be read together with the Company's Corporate Governance Report 2020 which is published on the Company's website at www.hrc.com.my.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. BOARD RESPONSIBILITIES

The primary role of the Board is to represent, promote and protect the interests of the Company, including its shareholders and stakeholders. To effectively discharge the Board's functions and responsibilities, certain powers are delegated to the management team of the Company (Management) and the following Board Committees:

- i. **Board Audit Committee (BAC);**
- ii. **Board Nominating and Remuneration Committee (BNRC);**
- iii. **Board Risk Management Committee (BRMC);**
- iv. **Board Projects Review Committee (BPRC);**
- v. **Board Tender Committee (BTC); and**
- vi. **Board Whistleblowing Committee (BWC).**

Amongst others, the Board assumes the following responsibilities:

No	Principal Responsibilities	Explanation and updates for FY 2020
i	To promote good corporate governance culture within the Company which reinforces ethical, prudent and professional behaviour	The Company has a full set of governance controls, policies and procedures, including HRC's General Business Principles, Code of Conduct, Manual of Authorities, a control framework and approval checks at various levels to instil good corporate governance practices within the Company.
ii	Reviewing and adopting a strategic plan for the Company	On 26 November 2020, the Board approved the Business Plan 2021 tabled by Management, which sets out the strategies and timelines to achieve both short-term and long-term value creation for the Company. The focus of the business strategy for the year 2021 is to survive the crisis caused by the COVID-19 pandemic, to continue to instil the Company's vision, mission and core values and to build for a sustainable business future.

No	Principal Responsibilities	Explanation and updates for FY 2020
iii	Overseeing the conduct of the Company's business	<p>The Board oversees the Company's business and assesses the performance of Management to determine whether the business is properly managed. This includes assessments on financial management, corporate governance, risk management, compliance to laws and regulations and human capital management.</p> <p>The Board and Board Committees reviews, challenges and deliberates on proposals tabled by Management and discusses the Company's performance during Board and Board Committee meetings.</p> <p>A scorecard based on Key Performance Indicators (KPIs) set for Management is utilised by the Board to measure the performance and effectiveness of the Company.</p>
iv	Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures	<p>To ensure appropriate internal controls and mitigation measures are in place, the BAC and BRMC assists the Board in assessing and anticipating potential risks to the Company and recommend appropriate actions to be taken to mitigate the risks.</p> <p>The BAC oversees the internal controls system of the Company while the BRMC ensures that an effective risk management framework is in place. The Committees also ensure that the Company's internal controls and risk management framework are periodically tested for its effectiveness and integrity.</p>
v	Succession planning	<p>The BNRC assists the Board to oversee the nomination function to ensure orderly succession planning for Directors and key members of senior management holding the positions of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Human Resource (HR) Manager. The BNRC also oversees the annual assessment of the effectiveness of the Board and Board Committees.</p>
vi	Overseeing the development and implementation of a stakeholder communications policy for the Company	<p>The Company keeps its stakeholders updated through communications published on the Company's website and announcements made to Bursa Malaysia, including general announcements and the Company's quarterly financial reports, annual report and sustainability report, circulars to shareholders and press statements, as well as virtual townhall meetings and employee information circulars, whenever required. Apart from that, the Company continues to engage in active communications with the communities near the Company's site in Port Dickson to foster close relationships and keep its neighbours informed on matters that may affect them.</p>
vii	Reviewing the adequacy and the integrity of the management information and internal control systems of the Company	<p>The Board and Management continue to base the efficacy of the Company's internal control systems on the control framework approved by the Board.</p> <p>The Board also reviews the integrity of the Company's financial and non-financial reporting with the assistance of the BAC and the BRMC.</p> <p>Further details of the risk management and internal control framework are provided in the Company's Statement on Risk Management and Internal Control which is available on page 58 of this Annual Report.</p>

The primary roles and responsibilities of the Board and Board Committees are contained in the Board Charter and the Terms of References of the respective Board Committees. They are published on the Company's website at www.hrc.com.my.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Separation of Positions of the Chairman and Chief Executive Officer

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

Mr Erkki Tapio Ranta is the CEO of the Company, having assumed his position with effect from 1 March 2020. He is not, and has never been, a member of the Board.

Company Secretary

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

Access to Meeting Materials

The notices and agenda of meetings and the relevant board papers are circulated to members of the Board and Board Committees at least five (5) working days prior to the meeting to ensure that there is sufficient time and information for its members to review and evaluate the matters to be deliberated at meetings.

The Company uses an online collaborative software to facilitate the effective distribution of board meeting materials and allow Board members to easily access, review and comment on the Board papers securely.

For FY 2020, the Board opined through its Board Effectiveness Assessment (BEA FY2020) that it would like to see continued improvements to the quality of the content and timeliness of circulation of board papers and meeting minutes, so that effective board discussions and decision-making can be achieved.

Board Charter

The Board reviews and evaluates the adequacy of its Board Charter on a regular basis to ensure that there is clarity in the roles and responsibilities of the Board, its Committees, individual Directors, the relationship between the Board and Management and issues reserved for the Board.

The Board Charter was updated on 18 August 2020 to include the role and function of the BWC, which was formed in November 2019, and is published on the Company's website at www.hrc.com.my.

Code of Conduct

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

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

In FY2020, the Company implemented an Office Automation (OA) application which made it convenient for employees, who were compulsorily required to register gifts received from business partners and declare any conflicts of interests, to do so via the platform. Approvals for such gifts and conflicts were also granted and recorded through the OA, making it easy for the Company's officers to track and review compliance of the Company's policies.

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

Whistleblowing Policy

The BWC was established by the Board on 27 November 2019 to carry out the following objectives:

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

The Board regularly reviews and updates the Company's Whistleblowing Policy to ensure a smooth channel to facilitate disclosure of genuine and legitimate improper conduct within the Company. On 26 March 2021, the Whistleblowing Policy was enhanced to allow for disclosures of improper conduct in any language, for the benefit of whistleblowers.

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

II. BOARD COMPOSITION

The Board consists of seven (7) Directors, comprising three (3) Non-Independent Non-Executive Directors and four (4) Independent Non-Executive Directors to ensure balance of power and authority within the Board.

As at 31 December 2020, none of the Company's Independent Non-Executive Directors have served beyond nine (9) years on the Board and the Company's Board Charter has set out that the tenure of an Independent Non-Executive Director should not exceed a cumulative term limit of nine (9) years.

The Board recognises the importance of having a diverse board with a mix of relevant skills, expertise and experience to provide diverse perspectives and insights for decision making in the best interests of the Company. The BNRC assists the Board with screening and selection of candidates for the Board and selected members of the Company's Management team, having regard to the candidate's skills, knowledge, expertise and experience, time commitment, character, professionalism and

integrity, ability to work cohesively with other members of the Board / team, age, gender and cultural background, number of directorships in other companies, and the requirements of the Company. Further information on the policies and process for the appointment of Directors can be found in the subsequent section of this Statement on the BNRC.

As at 31 December 2020, the Board composition is as follows:

Number of Directors	Race / Ethnicity				Nationality	
	Malay	Chinese	Indian	Others	Malaysian	Foreigner
	2	2	1	2	5	2

Number of Directors	Age Group		Gender	
	50-59	60-69	Male	Female
	4	3	5	2

No	Experience / Skills	Percentage
1	Corporate Governance	100%
2	Regulatory Compliance / Legal	58%
3	Internal Controls / Risk Management / Audit	100%
4	Finance: Accounting / Treasury / Tax	67%
5	Corporate Finance / Mergers & Acquisitionss	67%
6	Commercial, Economics and Scheduling	67%
7	QHSSE	75%
8	Strategy and Oil & Gas	75%
9	Supply / Marketing / Sales	58%
10	Contracting and Procurement	63%
11	Project Management / Engineering	58%
12	Human Resource & Development	79%
13	Information Technology	29%
14	International Finance	17%

CORPORATE GOVERNANCE OVERVIEW STATEMENT

As at 31 December 2020, Management's composition consists of:

Number of Management members	Race / Ethnicity				Nationality	
	Malay	Chinese	Indian	Others	Malaysian	Foreigner
	5	3	1	2	9	2

Number of Management members	Age Group			Gender	
	30-39	40-49	50-59	Male	Female
	1	7	3	8	3

As at 31 December 2020, two (2) out of seven (7) Directors of the Company, or 29% of Board members, are women. This is very close to the 30% target recommended by Practice 4.5 of the MCCG and represents an improvement from last year's position where only one (1) out of six (6) Board members was female.

While the Board recognises the importance of gender diversity, to ensure that the interests of the Company and its stakeholders are protected, the standard selection criteria for Directors, which is set out above, remains a priority for the assessment of Board candidates. The gender diversity targets of the Board will be considered collectively with all other factors.

Board Nominating and Remuneration Committee

The Chairman of the BNRC is Mr Surinderdeep Singh Mohindar Singh, an Independent Non-Executive Director of the Company.

The BNRC is responsible for assisting the Board on nomination and remuneration functions with respect to Board members and selected positions of the Company. The Committee recommends the nominations of candidates to the Board and Board Committees, and evaluates and recommends to the Board the employment, promotion, discipline, resignation and termination of the CEO, CFO and HR Manager.

Nomination Function of the BNRC

The Board Diversity Policy was endorsed by the BNRC and approved by the Board on 26 March 2021. It sets out the Company's approach for the consideration of diversity in areas such as skills and expertise, background, age and gender, in its appointment of candidates to the Board.

In carrying out its nomination functions, the BNRC may solicit and consider the views of existing Board members, Management, major shareholders, independent search firms and a variety of other independent sources. The appropriate disclosures will be made in the Company's annual report if independent sources were not used for the selection.

On 18 August 2020, Miss Loy Swee Im (Miss Loy) was appointed as a Non-Independent Non-Executive Director of HRC. She was nominated as a Director by the Company's major shareholder, Malaysia Hengyuan International Limited (MHIL). After due deliberation, her appointment was endorsed by the BNRC and approved by the Board based on the following factors:

- (i) Miss Loy has been the chief executive officer of Hengyuan International Sdn Bhd (HISB), a company related to MHIL and a party related to HRC, since February 2020 and is known to MHIL and the Company. She was recruited to join HISB through an independent executive search agency;
- (ii) She has significant experience in senior finance roles and managing business units, as well as industry experience in, amongst others, the Oil and Gas and Automotive industries;
- (iii) She would bring in fresh perspective and her appointment would improve the gender diversity of the Board; and
- (iv) Overall, Miss Loy would be a valuable addition to the Board and her appointment is in the best interests of the Company.

Board Effectiveness Assessment

The BNRC is responsible for assisting the Board in establishing procedures and processes towards an annual assessment of the effectiveness of the Board and each Board Committee, as well as the contribution of each individual Director. For FY 2020, the BNRC decided to conduct the BEA FY2020 internally with an expansion of the existing questionnaire to cover a holistic perspective and identify areas for improvement.

The results of the BEA FY2020 show that the Board is satisfied with the operations and overall effectiveness of the Board for FY 2020 and that it has effectively discharged its duties in accordance with the Company's Board Charter. However, the Board would like to see further improvements to the structure and content of the board papers and a shorter timeline for the circulation of meeting minutes.

The Board Committees (i.e., the BAC, BNRC, BRMC, BPRC, BTC and BWC) had also carried out a self-evaluation via the BEA FY2020 and Directors have indicated that they are satisfied with the overall effectiveness of the respective Board Committees.

III. REMUNERATION

The Company has established a Directors Remuneration Policy to ensure that the compensation packages to the Directors are reflective of the Company's demands, complexities and performance as a whole, as well as the skills and experience required, and in line with the strategic objectives of the Company which rewards contribution to its long-term success.

The BNRC is guided by the following principles in its endorsement and recommendation of the remuneration to be paid to the individual Directors, which is subject to approval by the Board:

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

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

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

Details of the remuneration breakdown of individual Directors FY2020, including fees, salary, bonus, benefits-in-kind and other emoluments (received or to be received from the Company) are as follows:

(In RM'000)	Salaries, bonus and salaries related benefits	Directors' fees	Attendance and other remuneration	Total
Wang, YouDe	N/A	753	4	757
Wang, ZongQuan	N/A	225	4	229
Alan Hamzah Sendut	N/A	264	4	268
Fauziah Hisham	N/A	186	4	190
Liang Kok Siang	N/A	252	4	256
Surinderdeep Singh Mohindar Singh	N/A	240	4	244
Loy Swee Im	N/A	63	1	64
Total		1,983	25	2,008

The Directors of the Company were insured against certain liabilities under a Directors' and Officers' liability insurance policy for which the Company paid an aggregate sum of RM60,500.00.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. BOARD AUDIT COMMITTEE

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

The BAC members continuously update themselves of the latest developments in accounting and auditing standards, practices and rules. The list of training courses attended by the members of the Board, including members of the BAC, can be found on page 142 of this Annual Report.

The BAC assists and supports the Board's responsibility of overseeing the suitability, objectivity and independence of the Company's external auditor and internal audit function by ensuring that proper internal controls are implemented to enhance the independence of these functions and by providing direction and oversight on behalf of the Board.

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

The BAC is responsible for recommending to the Board the appointment or re-appointment of the external auditor and the associated audit fee after reviewing their suitability, resources, competency and independence, and any resignation or dismissal of the external auditor and the reasons therefor.

The appointment or re-appointment of the external auditor is recommended by the Board in the Company's annual general meeting and the external auditor is ultimately appointed or re-appointed by shareholders at the meeting.

The external auditor is evaluated on an annual basis in accordance with the Company's External Auditor Assessment Policy, which considers the external auditor's competence, audit quality and independence.

The BAC's report is available on page 63 of this Annual Report.

II. RISK MANAGEMENT AND INTERNAL CONTROL FRAMEWORK

The Board strives to maintain a sound internal control and risk management system to ensure a smooth running of the business. It is the Company's aim to manage its risks and control its business and financial affairs economically, efficiently and effectively, so as to be able to deliver profitable business opportunities in a disciplined way, to avoid or mitigate risks that can cause loss, reputational damage or business failure, and to enhance resilience to external events.

The BRMC provides oversight and direction on risk management matters to ensure prudent risk management over the Company's business and operations. The Committee's functions include ensuring that the Company's internal control and risk management framework are periodically evaluated for quality, integrity and effectiveness, a systematic and comprehensive evaluation of the key risk areas are conducted and that controls are in place to mitigate and manage those risks. The implementation of risk controls is monitored and the results are presented to the BRMC during its meetings.

The Chairman of the BRMC is Loy Swee Im, a Non-Independent Non-Executive Director of the Board. The Committee comprises of three (3) members, two (2) of whom are Independent Non-Executive Directors.

Further details of the risk management and internal control framework are provided in the Company's Statement on Risk Management and Internal Control which is available on page 58 of this Annual Report.

Internal Audit Function

The Chief Internal Auditor reports directly to the BAC, who reviews and assess the performance of the internal audit function of the Company on an annual basis. The internal audit charter of the Company's Internal Audit Department (IAD), which is headed by the CIA, provides that the IAD shall maintain its objectivity and independence, at all times, and will have no direct operational responsibility or authority over any of the activities audited. The CIA is also required to confirm the organisational independence of the IAD to the BAC and the Board annually.

Further details of the IAD can be found in the Company's Corporate Governance Report 2020, which is published at www.hrc.com.my.

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

I. Communication with Stakeholders

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

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

- (i) town hall meetings, which were held virtually in 2020 due to the movement control orders imposed as a result of the COVID-19 pandemic;
- (ii) employee information circulars, which were sent by electronic mail;
- (iii) one-to-one engagements, regular visits and meetings especially to the neighbouring communities near the Company's refinery;
- (iv) engagements with local, state and federal government authorities to ensure compliance to laws and regulations applicable to the Company especially on financial, tax, governance, environment and health and safety matters; and
- (v) transparent and up-to-date announcements through Bursa Malaysia, including the Company's financial reports, annual report and sustainability report, circulars and press releases.

II. Conduct of General Meetings

The Company's Board Charter provides that the Board shall ensure that shareholders are given all necessary information and notice of the annual general meeting of the Company (AGM) at least twenty-one (21) days before the meeting. In practice, the Company has been circulating its notice of AGM at least twenty-eight (28) days before the meeting in accordance with Practice 12.1 of the MCCG. For the Company's 61st AGM, the notice of meeting was circulated on 21 May 2020, which was thirty-three (33) days before the meeting held on 23 June 2020.

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

During the Company's 61st AGM held on 23 June 2020, all Directors and Chairs of the respective Board Committees, as well as senior management members such as the CEO, CFO and CCO, attended the virtual meeting which was held entirely through live streaming due to the movement control order restrictions imposed as a result of the COVID-19 pandemic.

Shareholders were invited to submit questions through the remote participation and voting facilities online (RPV) and the Directors and senior management responded to questions and key matters raised by the shareholders in relation to the performance of the Company. The responses to queries that were not able to be answered due to time constraints were compiled and e-mailed to shareholders after the meeting. Shareholders were also able to vote remotely on the AGM resolutions using the RPV.

The minutes of the 61st AGM are published at www.hrc.com.my.

The Company's Corporate Governance Report and Corporate Governance Overview Statement was approved by the Board on 26 March 2021.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (Board) of Hengyuan Refining Company Berhad (Company or HRC) is committed to maintaining a sound internal control and risk management system to ensure the smooth running of the business. It is HRC's aim to manage its risks and to control its business and financial affairs economically, efficiently and effectively so as to be able to deliver profitable business outcomes in a disciplined way, to avoid or mitigate risks that can cause loss, reputational damage or business failure, and to enhance our resilience to external events.

The following statement outlines the nature and scope of HRC's internal control and risk management in 2020.

BOARD'S RESPONSIBILITY

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

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

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

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

MANAGEMENT'S ROLE

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

RISK MANAGEMENT

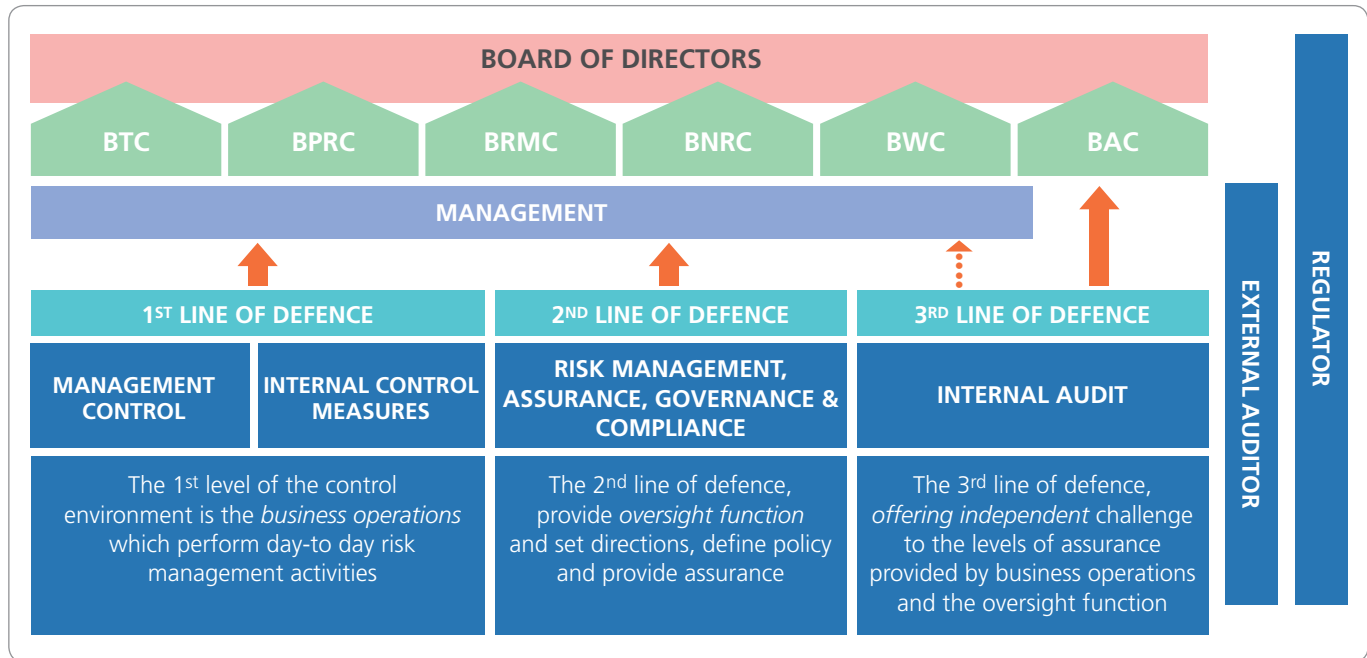
The Risk & Integrity (R&I) Department oversees the risk management function within HRC. The objective of risk management is to promote advanced awareness and define boundaries for risk-taking, and to apply fit-for-purpose risk responses in order for HRC to provide a reasonably sufficient, but not an absolute assurance, against material misstatements, fraud or loss. In addition, it allows HRC to operate and achieve its objectives, within a managed and acceptable risk profile.

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

- Minimise the likelihood of a risk occurring by actively managing the sources of the risk and ensuring competent people are overseeing the risk on a regular basis; and
- Mitigate the impact of a risk should it arise, often through the application of some forms of alert that the risk has materialised, followed by the initiation of a contingency or recovery plan to reduce the potential consequences and also future occurrences.

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

THREE LINES OF DEFENCE



Note: The director membership of each Board Committee is shown under the Board of Directors’ profile on page 42 of this Annual Report.

The HRC risk register is segregated into four (4) major components, which are: Operational Risk, Financial & Commercial Risk, Strategic Risk and Legal & Regulatory Risk.

All risks will be deliberated on a quarterly basis by the senior management before being brought to the BRMC for review and further deliberation.

KEY INTERNAL CONTROLS

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

1. AUTHORITY AND RESPONSIBILITY

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

2. ORGANISATION STRUCTURE AND MANAGEMENT COMMITTEE

- An organisational structure, which is aligned to the business and operational requirements, and with clearly defined lines of responsibility, accountability and levels of authority, is in place to assist in implementing HRC’s strategies and day-to-day business activities.
- The Management team serves in an advisory capacity to the Chief Executive Officer (CEO) in accomplishing the vision, strategies and objectives set for HRC.
- Various functional committees have also been established across the Company to ensure HRC’s activities and operations are properly aligned towards achieving its organisational goals and objectives.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

3. PLANNING, MONITORING AND REPORTING

- a. An annual planning and budgetary exercise are undertaken by all departments to prepare business plans and budgets for the forthcoming year. These are deliberated on by the BAC to ensure alignment with the strategy as agreed at the latest strategy review. Thereafter, the BAC recommends the updated plans and budget to the Board for approval before its implementation.
- b. HRC's financial performances are reviewed regularly by Management. The financial results and variances (if any) are presented to the Board on a quarterly basis.
- c. The Chief Financial Officer (CFO) is required to provide assurance to the BAC that:
 - Appropriate accounting policies have been adopted and applied consistently, the going concern basis applied in the Annual Financial Statements is appropriate, and that prudent judgements and reasonable estimates have been made in accordance with the requirements set out in the Malaysian Financial Reporting Standards (MFRSs) and the International Financial Reporting Standards (IFRSs);
 - Adequate processes and controls are in place for effective and efficient financial reporting and disclosure under the requirements of MFRSs, IFRSs, the Companies Act 2016 and Bursa Malaysia Securities Berhad's Main Market Listing Requirements (MMLR); and
 - The Annual Financial Statements and the quarterly Financial Statements give a true and fair view of the financial position and financial performance of the Company and do not contain any material misstatement.
- d. There is a regular and comprehensive flow of information from Management to the Board on all aspects of HRC's operations to facilitate the monitoring of performance against HRC's corporate strategy, business plans and regulatory requirements.
- e. The sustainability strategy is developed by management and reviewed by the Board to ensure its robustness in achieving HRC's objectives. The sustainability strategy was approved by the Board and is disclosed in the 2020 Sustainability Report.

4. POLICIES AND PROCEDURES

Clear, formalised and documented internal policies, standards and procedures are in place to ensure compliance with internal controls and relevant laws and regulations.

A list of identified laws and regulations applicable to HRC is documented and maintained to facilitate compliance. Regular reviews are performed to ensure that documentation remains current and relevant. Policies and procedures are available on HRC's intranet and are accessible to the employees.

5. BUSINESS INTEGRITY MANAGEMENT

With the enforcement of the Corporate Liability provision involving commercial organisations under Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009 from 1 June 2020, as announced by the Prime Minister's Department on 21 May 2020, HRC continues to support the Government initiatives and strong determination to fight corruption.

HRC is certified under the Anti-Bribery Management System, ISO 37001:2016 and shall continue to adhere with the standard's requirements in its day-to-day operations.

The Risk and Integrity Department is tasked to advocate, implement, and ensure HRC business integrity management system works in accordance with its intended purposes.

BRMC provides oversight on the overall implementation of business integrity within HRC. A checklist detailing the Company's current capability against the MACC's Guideline on Adequate Procedures was presented to BRMC in February 2020.

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

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

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

The ABC & AML Manual was approved by the Board who is committed to ensuring that ethical business practices are being adhered to and that the Company has put in place adequate controls to mitigate the risk of bribery and corruption. Business integrity is also recognised as one of the main pillars of HRC's General Business Principles.

The ABC & AML Manual covers areas such as:

- i. The contracting and procurement process
- ii. Offering and receiving gifts and hospitality
- iii. Conflicts of interest
- iv. Facilitation payments
- v. Funding social investment, donation and sponsorship
- vi. Political payments and activities
- vii. Recruitment

The ABC & AML Manual and its contents have been communicated to all employees via memorandum, HRC's intranet and in-house training. The same has also been communicated to all vendors, suppliers, contractors and any third parties that have business dealings with HRC.

Employees and parties having business dealings with HRC have also been requested to sign a declaration of their commitment to comply with the ABC & AML Manual and to disclose any conflict of interest via HRC's annual declaration process. Business associates and senior management are subject to integrity due diligence checks from time to time.

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

b. BUSINESS INTEGRITY ACTIVITIES

In year 2020, various activities were organised online to strengthen the culture of business integrity within the Company.

During the first week of October 2020, the Risk & Integrity Department organised the annual Business Integrity Week in conjunction with World Ethics Day 2020, comprising of forums, an integrity quiz, ethical and information system e-learning and a virtual integrity exhibition.

6. COMPLIANCE MANAGEMENT

The Management team led by the CEO is responsible for ensuring day to day operational compliance within the Company.

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

In 2020, no major non-compliance was encountered.

7. CODE OF CONDUCT

The Code of Conduct (Code) applies to every employee, officer, and director in HRC as well as contract employees working for HRC. Contractors and consultants who are agents of, or working on behalf of, or in the name of HRC (through outsourcing of services, processes or any business activity), are required to act consistently with the Code when acting on HRC's behalf. Contractors and consultants are also made aware of the Code as it applies to their dealings with HRC employees.

The Code outlines the following:

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

8. INFORMATION AND COMMUNICATIONS TECHNOLOGY

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

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

9. EMPLOYEES PERFORMANCE MANAGEMENT

HRC selects individuals for employment through a structured recruitment process. The professionalism and competency of employees is continuously enhanced through a structured training and development programme.

A performance management system is in place which measures employee's performance against agreed goals on an annual basis.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

10. WHISTLEBLOWING POLICY

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

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

The Policy is available on HRC's corporate website.

11. QUALITY, HEALTH, SECURITY, SAFETY, ENVIRONMENTAL (QHSSE), SUSTAINABILITY, SOCIAL AND GOVERNANCE

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

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

A comprehensive list of activities and initiatives performed by HRC is highlighted in the HRC Sustainability Report 2020.

INTERNAL AUDIT

The Board recognises that the internal audit function is an integral component of the governance process. The Chief Internal Auditor reports directly to the BAC Chair. The Internal Audit Department supports the BAC by providing an independent and objective assurance designed to add value and improve HRC's operations.

In 2020, the following reviews were performed and reported to the BAC:

- a. Audit engagements were carried out based on the annual internal audit plan approved by the BAC. The auditors assessed the audit areas with regard to risk exposures, compliance with approved policies and procedures and relevant laws and regulations. For any significant gaps

identified, the auditors provided recommendations to Management to improve the effectiveness of controls where applicable.

- b. Certification / recertification audits were carried out by SIRIM Berhad for ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, and ISO 45001:2018 Occupational Health and Safety Management Systems.

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

REVIEW OF THIS STATEMENT

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

CONCLUSION

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

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

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

Following the recent economic effects of the COVID-19 pandemic, the Board will continue to review measures initiated by HRC to minimise the potential risk and impact arising from these situations.

This Statement on Risk Management and Internal Control was approved by the Board on 26 March 2021.

AUDIT COMMITTEE REPORT

The Board of Directors (Board) of Hengyuan Refining Company Berhad (Company or HRC) presents the Audit Committee Report which provides insights into the manner in which the Board Audit Committee discharged its functions in 2020.

COMPOSITION AND ATTENDANCE

HRC's Board Audit Committee (BAC) comprises four (4) members with a diverse mix of skills, knowledge, experience and perspectives in the areas of accounting, corporate finance, banking, oil and gas industry, strategy and corporate governance, which enables the BAC to discharge its duties.

The BAC consists solely of Independent Non-Executive Directors. All of the Independent Non-Executive Directors satisfied the test of independence under Bursa Malaysia Securities Berhad's Main Market Listing Requirements (MMLR). The BAC meets the requirements of paragraph 15.09(1)(a) and (b) of the MMLR and Practice 8.4 under Principle B of the Malaysian Code on Corporate Governance (MCCG). The BAC members' attendance records are outlined on page 139 of this Annual Report.

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

The Board reviews the terms of office of the BAC members and assesses the performance of the BAC and its members through an annual Board Committee effectiveness evaluation. The Board indicated through the Board Effectiveness Assessment FY2020 that it was satisfied that the BAC and its members discharged their functions, duties and responsibilities in accordance with the BAC's Terms of Reference (TOR), which is accessible for reference on the Company's website at: www.hrc.com.my.

The TOR of the BAC was reviewed and amended on 18 August 2020 to exclude the Committee's overview of whistleblowing governance, which is now overseen by the Board Whistleblowing Committee, and on 26 November 2020 to include the review and endorsement of terms of transactions with related parties.

MEETINGS

The BAC held five (5) meetings during the financial year ended 31 December 2020. The attendance of the BAC members in its meetings are set out on page 139 of this Annual Report.

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

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

PwC briefed the BAC on the outcome of the statutory audit for the financial year ended 31 December 2020, significant auditing and accounting matters, internal control recommendations and developments in relevant laws and regulations.

The BAC held its independent meetings with PwC on 20 March 2020 and 8 March 2021 without the presence of Management to discuss and provide feedback on the Company's audit for the financial years ended 31 December 2019 and 2020 respectively, the level of cooperation received from Management, any specific audit concerns and the quality of financial reporting.

Minutes of each BAC meeting were recorded and tabled for confirmation at the next following BAC meeting and subsequently presented to the Board for notation. In 2020, the BAC Chair presented to the Board the BAC's recommendations to approve the annual and quarterly financial statements.

The BAC Chair also conveyed to the Board, matters of significant concern as and when raised by the external auditors or internal auditors in the respective quarterly presentations.

AUDIT COMMITTEE REPORT

ACTIVITIES OF THE BAC

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

The BAC's key activities for the financial year ended 31 December 2020 comprised the following:

1. Financial Reporting

In overseeing HRC's financial reporting, the BAC reviewed the quarterly financial statements for the fourth quarter of 2019 and the annual audited financial statements for 2019 at its meetings on 17 February 2020 and 20 March 2020, respectively.

The quarterly financial statements for the first, second and third quarters of 2020, which were prepared in compliance with the Malaysian Financial Reporting Standard (MFRS) 134 Interim Financial Reporting, International Accounting Standard (IAS) 34 Interim Financial Reporting and paragraph 9.22, including Appendix 9B, of the MMLR, were reviewed at the BAC meetings on 15 June 2020, 17 August 2020 and 25 November 2020, respectively.

On 25 February 2021 and 26 March 2021, the BAC reviewed the quarterly financial statements for the fourth quarter of 2020 and the annual audited financial statements for 2020 respectively.

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

2. External Audit

The BAC reviewed PwC's audit plan and scope for the financial year ended 2020 and the payment of auditors' statutory and non-audit fees.

Results of PwC's annual audit and audit findings together with recommendations and Management's response were reviewed by the BAC. Matters included in the Management representation letter were also reviewed by the BAC.

In addition to the review of the annual audit of HRC's financial statements, the External Auditors were engaged to conduct reviews of selected quarterly financial results during 2020 in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" which were reported and reviewed by the BAC.

On 25 February 2021, the CIA reported that non-audit fees incurred in 2020 amounted to RM154,525, constituting approximately 27 per cent of the total remuneration of RM574,525 to the External Auditors for 2020.

The BAC has assessed and is satisfied with the competency, audit quality and independence of PwC, whose appointment was approved by shareholders of the Company at HRC's 61st Annual General Meeting. The assessment was conducted based on the criterias stipulated in HRC's External Auditor Assessment Policy, which was approved by the Board on 29 March 2019.

3. Internal Audit

The IA team conducted the audit work as per the 2020 Annual Audit Plan approved by the BAC on 21 November 2019.

In year 2020, the internal audit function of HRC is monitored by the BAC and consists of two segments:

- (1) An Internal Audit Department (IAD), which acts as an independent evaluating body to assist and provide assurance to the Board, the BAC and Management of HRC. The IAD is headed by the CIA who reports functionally to the Chair of the BAC and administratively to the CEO. There are two (2) Internal Auditors who report to the CIA. The internal auditors have sufficient mix of knowledge, skills and competencies to execute the audit plan. Effective 1 November 2020, one (1) of the Internal Auditors was transferred to support the Risk & Integrity Department following the resignation of the Risk & Integrity Officer; and
- (2) HRC's Site Internal Assurance (SIA), which comprises 38 trained and / or ISO certified site internal auditors from various departments of HRC. The SIA carries out the site internal audits and process effectiveness of HRC and reports to the Quality, Health, Security, Safety and Environment Manager. All SIA internal audit reports are reviewed by the CIA before finalisation.

IAD activities are reported to the BAC on a quarterly basis, while SIA overall activities are presented to BAC annually, at the end of each financial year.

Urgent issues arising from the internal audit processes are highlighted to the Management promptly.

The total costs incurred by the internal audit function of the Company for the financial year under review was RM753,156.

4. HRC Assurance Plan 2020

The BAC oversaw HRC’s approved internal audit and assurance plan for the year 2020 which consisted of five (5) regulatory and statutory audits and fourteen (14) internal audits to ensure business processes and regulatory compliance. These are:

Name of Audit / Review
Regulatory / Statutory Audits
Financial Audit and Interim Financial Reviews by External Auditor
ISO 9001 Surveillance Audit
ISO 14001 Surveillance Audit
ISO 45001 Surveillance Audit
ISO 17025 Accreditation and Migration to 2017 Revision
Internal Audits
Green House Gas Verification
Information Technology and Cyber Security Management
Follow-up on Management Review by MHIL
Minor Project Management
Corporate Card Management
Procure-to-Pay Processes (Run & Maintain)
Procure-to-Pay Processes (Hydrocarbon)
Related Party Transaction Process
HRC Regulatory Compliance Management
ISO 9001
ISO 14001
ISO 45001
ISO 17025
ISO 27001

The progress of the Internal Audit and Assurance Plan 2020 and its audits were reported to the Board on a quarterly basis.

During the course of the year, the BAC also approved two (2) special reviews on significant business processes.

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

5. Related Party Transactions

In the year 2020, the BAC reviewed the Company’s Circular to Shareholders in relation to the proposed renewal of shareholders’ mandate for recurrent related party transactions (RRPT) for the period from 23 June 2020 to the 62nd Annual General Meeting of the Company.

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

On 1 September 2020, the BAC reviewed and endorsed the process for governing contracting and procurement RRPT approved by shareholders, which was subsequently approved by the Board. On 30 September 2020, the BAC endorsed the terms of the contracting and procurement RRPT with Hengyuan International Sdn Bhd in accordance with the approved process.

6. Others

Other matters discussed by the BAC during its meetings include:

- (a) The review of 2019 impairment assumptions and tests;
- (b) The review of change in functional currency from United States Dollar (USD) to Ringgit Malaysia (RM);
- (c) The review of the BAC Report and the Statement on Risk Management and Internal Control for the financial year ended 31 December 2019 during the BAC’s meeting on 17 February 2020 for the purpose of inclusion in the Company’s 2019 Annual Report;
- (d) The review of major projects’ progress and any financial risk / impact due to COVID-19 threat;
- (e) The review of reports on crude, margin and FX hedging activities and outcome;
- (f) The Company’s cash forecast, financing planning and liquidity position;
- (g) The solvency outlook of the Company in the next 12 months, loan position of the Company and dividend proposal;
- (h) The review of assessment outcome on recoverable amount of property, plant and equipment; and
- (i) The quarterly updates of whistleblowing disclosures.

Future Focus

05

While remaining resilient through current challenges we keep our eye on:

- Continuous improvement
- Investment projects • Growth ideas





Note: Photo taken prior to MCO which started on 18 March 2020

HERE TO STAY, HERE TO GROW

WITH RESILIENCE & RESPECT