

CHAIRMAN'S STATEMENT



Dear Shareholders,

Within a year challenged by volatility in oil prices, continued supply chain disruptions and an evolving energy landscape, Hengyuan Refining Company Berhad (HRC or the Company) focused on sustainable growth through turnaround and enhancements in transformation.

KEY FY2023 HIGHLIGHTS

The 2023 major Turnaround activity (TA 2023) was the year's key highlight, whereby the refinery was in a temporary suspension mode to enable activities such as maintenance, inspections, repairs, and upgrades to production assets and equipment to be carried out, in ensuring reliable, sustainable and efficient operation of our assets and equipment. With the joint efforts of the management and employees, this proactive approach had been successfully carried out within the stipulated timelines and costs. It helps manage safety risks, maintain regulatory compliance, and optimises the refinery's overall performance.

Alongside this, in FY2023, HRC achieved a reliability milestone, with a record low Unplanned Downtime (UPDT) of 0.68%, this puts us at par with other newer world class refineries under quartile-1 of the Solomon chart. The fact that this was achieved in a turnaround year, is a testament to the calibre of our workforce. I applaud each and every HRC employee for this achievement.

It is worth to highlight that the E4M project experienced a smooth and safe first year of operation with no major product quality or reliability issues, signifying its sustainable operational status.

This successful commissioning and smooth operation of E4M has benefited HRC by increasing site margins.

Together with these operational achievements, in 2023 HRC received two prestigious awards that recognises the effectiveness of our sustainable initiatives. The first being the Prime Minister's Hibiscus Award 2023 for Excellent Achievement in Environmental Performance and the other was a gold award from The Edge Malaysia ESG Awards for Most Consistent Performer Over 5 Years.

ACTIVATING WORKFORCE MANAGEMENT ENHANCEMENTS

We regard our employees as key drivers of our success. Thus we launched the "People Programme" in 2023 to build a sustainable talent pool of skilled and committed employees who will enhance HRC's ability to swiftly respond to market changes, technological advancements, and shifting customer preferences in today's dynamic business environment. Through this programme, we aspire to nurture a responsive workforce that would empower us to navigate uncertainties effectively, and to capitalise on emerging opportunities.



More on this programme is detailed on page 33.

SUSTAINING SAFE WORKPLACE AND MINDSETS

Safety is paramount in our operations. In the dynamic and intricate environment of a refinery, prioritising safety isn't just a commitment; it's a responsibility. Our refinery has steadfastly adhered to the highest safety standards, achieving zero lost time injury (LTI) even amidst a busy turnaround year. Our unwavering dedication to creating a secure working environment pays off in achieving record high reliability performance. These achievements not only reflect our compliance with regulatory frameworks but also highlight our commitment to the well-being of our employees and the communities in which we operate. We remain vigilant in our pursuit of excellence in safety measures, ensuring that our refinery continues to be a model of responsible and sustainable operations.

IMPROVING COST OPTIMISATION FOR BETTER MARGINS

Our financial performance remains vulnerable to crude price, refined product price, and foreign exchange (forex) fluctuations caused by geopolitical forces and global economic changes. HRC was therefore vigilant in managing cash flows to ensure ongoing liquidity and identifying cost-saving opportunities.

Under HRC's Business Improvement Plan (BIP) strategies, eight tactics related to increasing processing capabilities and efficiencies were implemented that will result in about USD6.8 million savings in FY2024, depending on their utilisation.

ADVANCING SUSTAINABILITY AND ESG

Within the domestic economic landscape, the focus is gradually shifting to transitioning to a low-carbon economy. As such, HRC is also planning ahead to stay nimble and responsive to environmental regulatory changes that might require refineries to make necessary investments in technology and infrastructure in order to reduce emissions or to comply to stricter environment protection standards.

A significant stride in our ESG journey was made with the roll out of HRC's formal ESG framework in 2023. The framework outlines initiatives that support net zero aspiration such as the Energy Masterplan that will help minimise our carbon footprint. Through the Energy Masterplan, we have implemented initiatives to reduce carbon emission, adopt eco-friendly technologies to enhance resource efficiency, contributing to our broader commitment to environmental sustainability.

On the basis of stabilising our current oil refining business and maximising the value of our existing resources in the coming years, HRC is mindful of the growing demand for greener solutions around the world. We are continuously on the look-out for future opportunities in petrochemicals and renewable energy. In the meanwhile, enhancing our existing businesses remains a key part of our strategy. As such, in 2023 we have decided to proceed with the Flare Gas Recovery Unit (FGRU) project. The environmental benefits of the FGRU are primarily associated with the reduction of greenhouse gas emissions and additionally, helps to minimise the release of pollutants, conserve resources, and reduce the need for flaring - all of which contributes to the improvement of air quality.

GOVERNANCE AND INTEGRITY STEWARDSHIP

Our commitment to integrity and transparency remains unwavering. We have diligently kept pace with the reporting standards mandated by Bursa Malaysia. We strive to uphold the spirit of these standards, to extend our efforts beyond

mere compliance, embracing them as integral components of our corporate governance and disclosure practices.

Additionally, we have also invested in employee training and development programmes to build awareness and expertise related to environmental stewardship, social responsibility, and ethical business practices. This contributes to fostering a workforce that is sustainability focused.

In pursuit of these values, we have engaged an external consultant to assist in the development of a robust ESG framework, ensuring our strategies are well-aligned with best practices. We understand the importance of such a framework in addressing the evolving landscape of climate-related challenges and opportunities, and are thus committed to providing stakeholders with timely updates regarding our climate-related financial exposures and strategies. The ESG award we earned from The Edge in 2023, acknowledges HRC's commitment to observing ESG principles and sustainability with consistent performance over five years.

FY2023 DIVIDENDS

Having assessed the cash flows prior to declaration of dividend, in compliance with the Companies Act 2016, the Board has deemed it prudent to not declare any dividends at this juncture, given the financial performance and volatility of the market.

MOVING INTO 2024

The industry is influenced by factors such as fluctuating commodity prices, geopolitical dynamics, rapid technological advancements, and increasing focus on climate change and sustainability. The macroeconomic outlook influenced by the US and China, the geopolitical tensions in the Middle East and the Eastern Europe, as well as the reactions from the Organisation of the Petroleum Exporting Countries (OPEC) will impact the oil and gas market demands. Within this challenging environment, we steadfastly adhere to our strategies, commitment and directional path to ensure a reliable and stable long-term supply of refined products to Malaysia.

To strengthen our operations in Malaysia, we focus on honing our competitive edge through operational excellence, reduced operational costs and a wider customer base. The roll out of the ESG framework and implementation of the People Programme are aimed at fostering a culture of innovation

and continuous learning to adapt to new technologies and methodologies.

Braving the challenges brought on by climate change and the global trend of cleaner and renewable energy, we embrace cleaner technologies and sustainable practices in order to remain competitive and relevant in the market, as it is not only a necessity for environmental stewardship but also a strategic imperative for long-term business resilience.

By strategically aligning our business with sustainable practices, we believe that the anticipated impact on earnings will be positive in the longer term, contributing to economic growth and a more resilient future.

At our end, we are proactively managing risks associated with the transition, including potential regulatory changes, market disruptions, and technological advancements. By staying agile and responsive, we aim to mitigate risks and capitalise on emerging opportunities.

ACKNOWLEDGEMENTS

In closing, let us embrace change with gratitude for the past, and excitement for the future. On behalf of the Board, I would like to express our appreciation and gratitude to Puan Fauziah Hisham who resigned as our Director on 8 December 2023. With that, I welcome our new Director Ms Li, XiaoXia to contribute fresh perspectives and insights to the Board in our journey ahead. I also extend my heartfelt thanks to each member of our dedicated team.

The year's successful turnaround would not have been possible without the collective efforts of the leadership team and our valued employees. Their dedication and hard work form the bedrock of our accomplishments. We look forward to the shared triumphs and innovations that will undoubtedly emerge by advancing as ONE Hengyuan.

We also eagerly anticipate the new heights we will reach under the leadership of Mr Luke Yin who has joined the team as our new CEO. Finally, our appreciation extends to our valued customers, trusted partners, shareholders and community stakeholders, with the assurance that our priority towards delivering sustainable value, quality services and safe operations is unwavering. I look forward to continue serving you with passion and commitment.

Wang, YouDe
Chairman