DIRECTORS' REPORT

The Directors hereby submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the financial year.

FINANCIAL RESULTS

The results of the operations of the Company for the financial year were as follows:

	RM'000
Profit for the financial year	30,842

DIVIDENDS

The amount of dividends paid by the Company since the end of the previous financial year were as follows:

	RM'000
In respect of financial year ended 31 December 2017:	
Single-tier interim dividend of RM0.02 per share on 300,000,000 ordinary shares, paid on 17 April 2018	6,000

The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2018.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

DIRECTORS

The Directors in office during the financial year and during the period from the end of the financial year to the date of this report are:

Wang, YouDe

Wang, ZongQuan

Alan Hamzah Sendut

Fauziah binti Hisham

Liang Kok Siang

Surinderdeep Singh Mohindar Singh (appointed on 23 February 2019)

Martinus Joseph Marinus Aloysius Stals (resigned on 1 March 2018)

Lim Tau Kien (resigned on 22 February 2019)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit (other than benefits disclosed as Directors' remuneration in Note 12 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURE

According to the Register of Directors' Shareholdings required to be kept under Section 59 of the Companies Act 2016, none of the Directors who held office at the end of the financial year held any shares or debentures in the Company or its holding company during the financial year.

DIRECTORS' REMUNERATION

Details of Directors' remuneration are set out in Note 12 to the financial statements.

INDEMNITY AND INSURANCE COSTS

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM57,000.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements were prepared, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate provision had been made for doubtful debts; and

(b) to ensure that any current assets which were unlikely to be realised in the ordinary course of business including the values of current assets as shown in the accounting records of the Company had been written down to an amount which the current assets might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render it necessary to write off any bad debts or the amount of the provision for doubtful debts inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Company misleading; or

(c) which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

DIRECTORS' REPORT

At the date of this report, there does not exist:

(a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liability of any other person except as disclosed in Note 26 to the financial statements; and

(b) any contingent liability which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

(a) the results of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in Note 3 to the financial statements; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the financial year in which this report is made.

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

The Directors regard Malaysia Hengyuan International Limited ("MHIL"), a company incorporated in Labuan, Malaysia and Shandong Hengyuan Petrochemical Group Company Limited, a company incorporated in China, as the Company's immediate and ultimate holding companies respectively.

AUDITORS' REMUNERATION

Details of auditors' remuneration are set out in Note 9 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 29 March 2019. Signed on behalf of the Board of Directors.

WANG, YOUDE
DIRECTOR

ALAN HAMZAH SENDUT
DIRECTOR

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Wang, YouDe and Alan Hamzah Sendut, two of the Directors of Hengyuan Refining Company Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 83 to 136 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and financial performance of the Company for the financial year ended 31 December 2018 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 29 March 2019.

WANG, YOUDE
DIRECTOR

ALAN HAMZAH SENDUT
DIRECTOR

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Foo Ai Li, the officer primarily responsible for the financial management of Hengyuan Refining Company Berhad, do solemnly and sincerely declare that the financial statements set out on pages 83 to 136 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

FOO AI LI
CHIEF FINANCIAL OFFICER

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur, Malaysia, on 29 March 2019.

Before me:

SAMUEL JOHN A/L PONNIAH (NO. PJS: B437)
COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) (COMPANY NO. 3926-U)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hengyuan Refining Company Berhad ("the Company") give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 83 to 136.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements of the Company. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) (COMPANY NO. 3926-U)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th>Key audit matters</th><th>How our audit addressed the key audit matters</th></tr>
<tr><td>
Carrying amount of plant, machinery and equipment

Refer to Note 2.3 – Significant accounting policies: Property, Plant and Equipment, Note 2.7 - Significant accounting policies: Impairment of non-financial assets, Note 3(a) – Critical accounting estimates and judgements for the reversal of impairment of plant, machinery and equipment and Note 13 – Property, plant and equipment.

The carrying amount of the Company's plant, machinery and equipment of RM746,157,000 as at 31 December 2018, is net of accumulated impairment losses of RM348,343,000.

We focused on this area considering the material amount involved and the significant judgements and estimates made by the Directors in determining the VIU for its impairment assessment.

The key assumptions considered in the VIU calculation include:

• the projected refining margins which fluctuates based on the oil price and global economic changes; and

• the planned capital expenditure to be incurred to ensure compliance with future changes in regulations for product specifications.

Based on the VIU computed, the Directors have reversed the impairment provision of RM75,152,000 during the financial year.
</td><td>
We performed the following audit procedures on the value in use ("VIU") calculation which was approved by the Board:

• Discussed with the Board Audit Committee members and the senior management on the VIU calculation to understand the key assumptions which formed the basis of the recoverable amount;

• Evaluated management's cash flow projections and the process by which they were developed to ensure key inputs are in line with financial budgets approved by the Board of Directors;

• Corroborated supporting evidence underlying the projected refining margins provided by management to market data and industry research;

• Agreed the capital expenditure for key projects in the projections to the Board's final investment decision approval and project plans and enquired with relevant management on the supporting and basis of deriving the cost estimates; and

• Checked sensitivity analysis prepared by management on these key assumptions used in the impairment model.

Based on the procedures performed, we did not find any material exception to the Directors' view on the partial reversal of the impairment provision.
</td></tr>
</table>

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Translation of the Company's transactions and balances from Ringgit Malaysia ("RM") to United States Dollars ("USD") *Refer to Note 2.2 – Significant accounting policies: Foreign currencies* The Company changed its functional currency from Ringgit Malaysia ("RM") to United States Dollars ("USD") with effect from 1 January 2017. The Company's accounting records are maintained in RM and were manually converted from RM to the USD functional currency for the financial year ended 31 December 2018. We focused on the accuracy of the translation of the Company's financial results from RM to USD as it involved large volumes of data and complex computation for cost of sales as well as inventory balances.	We tested the accuracy of the translation of transactions during the year and closing balances as at year end from RM to USD by performing the following: • On a sampling basis, tested the translation of revenue and expense transactions denominated in currencies other than USD during the financial year using the spot rate applicable on the respective transaction dates; • On a sampling basis, tested the translation of depreciation and amortisation using the rate applicable to the cost of acquisition of the property, plant and equipment and intangible assets during the financial year; • Tested the cost of sales by agreeing the movement in translated inventory balances and applying the USD manufacturing cost in the valuation of petroleum products; and • All monetary assets and liabilities denominated in non-USD currencies were translated using the closing foreign exchange rate as at 31 December 2018. Based on the procedures performed, we did not find any material exceptions to the translation of transactions and balances from RM to USD.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Valuation of the derivative financial assets/liabilities *Refer to Note 19 - Derivative financial assets/liabilities* As at 31 December 2018, the derivative financial assets and derivative financial liabilities of the Company are RM288.3 million and RM14.6 million, respectively. We focused on the valuation of the derivatives as the volume of contracts entered into are high and estimates are required to value these derivative instruments. Therefore, there is higher risk that the fair value estimation may not be reasonable resulting in misstatement in the financial statements.	We tested the valuation of the derivatives by performing the following: • Obtained confirmation from counterparties to ascertain the completeness of the outstanding derivative instruments; • On a sampling basis, agreed the underlying data to the term sheets to ensure accuracy; • Established a tolerable range for the mark-to-market value for each type of derivative instrument tested; and • On a sampling basis, performed an independent valuation of the derivative instruments and compared the valuation to the mark-to-market value provided by the Company. Based on the procedures performed, we did not find any material exceptions on the valuation of derivative instruments.

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors' Report and Statement on Risk Management and Internal Control, which we obtained prior to the date of this auditor's report, and other sections in the 2018 Annual Report, which are expected to be made available to us after that date. Other information does not include the financial statements of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Company for the current financial year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

PAULINE HO
02684/11/2019 J
Chartered Accountant

Kuala Lumpur
29 March 2019

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
Revenue	6	**11,241,237**	11,583,467
Purchases		**(10,847,829)**	(10,150,554)
		393,408	1,432,913
Other income	7	**17,776**	30,764
Manufacturing expenses		**(213,860)**	(246,747)
Administrative expenses		**(48,122)**	(54,993)
Depreciation and amortisation		**(186,134)**	(205,688)
Other operating (losses)/gains		**(8,355)**	80,932
Finance cost	8	**(54,311)**	(63,679)
Reversal of impairment		**75,152**	–
(Loss)/profit before taxation	9	**(24,446)**	973,502
Taxation	10	**55,288**	(43,743)
Profit for the financial year		**30,842**	929,759
Other comprehensive income/(expense):			
Items that will be reclassified to profit or loss:			
Cash flow hedge reserve - net fair value gain/(loss) on derivatives (net of tax)		**198,239**	(1,727)
Cost of hedging reserve (net of tax)		**(32,373)**	–
Items that will not be reclassified to profit or loss:			
Foreign currency translation differences		**42,257**	(149,777)
		208,123	(151,504)
Total comprehensive income for the financial year		**238,965**	778,255
Earnings per unit of share (sen) - basic	11	**10**	310

The accompanying notes to the financial statements form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,280,770**	736,834
Prepaid lease payments	14	**1,643**	1,632
Intangible assets	15	**23,032**	38,433
Derivative financial assets	19	**136,852**	–
		1,442,297	776,899
CURRENT ASSETS			
Inventories	16	**1,218,160**	1,109,945
Trade receivables	17	**915,840**	1,081,278
Amounts due from immediate holding company	25	**7,745**	–
Other receivables and prepayments	18	**228,343**	166,296
Tax recoverable		**1,627**	1,230
Derivative financial assets	19	**151,439**	3,498
Deposits with licensed banks	20	**–**	310,000
Bank balances	20	**204,880**	202,907
		2,728,034	2,875,154
TOTAL ASSETS		**4,170,331**	3,652,053
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	**300,000**	300,000
Retained earnings	22	**1,665,040**	1,640,198
Cash flow hedge reserve	23	**196,512**	(1,727)
Cost of hedging reserve	23	**(32,373)**	–
Exchange translation reserve	23	**(107,520)**	(149,777)
		2,021,659	1,788,694
CURRENT LIABILITIES			
Trade and other payables	24	**920,287**	587,297
Amounts due to immediate holding company	25	**24,982**	14,200
Derivative financial liabilities	19	**8,250**	14,812
Borrowings	26	**555,095**	79,103
		1,508,614	695,412
NON-CURRENT LIABILITIES			
Derivative financial liabilities	19	**6,329**	–
Borrowings	26	**595,537**	1,125,905
Deferred tax liabilities	27	**38,192**	42,042
		640,058	1,167,947
TOTAL EQUITY AND LIABILITIES		**4,170,331**	3,652,053

The accompanying notes to the financial statements form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Issued and fully paid ordinary shares		Non-distributable			Distributable	
	Number of shares '000	Nominal value RM'000	Cost of hedging reserve RM'000	Exchange translation reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2018	**300,000**	**300,000**	–	**(149,777)**	**(1,727)**	**1,640,198**	**1,788,694**
Net profit for the financial year	–	–	–	–	–	**30,842**	**30,842**
Other comprehensive (expense)/ income for the financial year	–	–	**(32,373)**	**42,257**	**198,239**	–	**208,123**
Total comprehensive (expense)/ income for the financial year	–	–	**(32,373)**	**42,257**	**198,239**	**30,842**	**238,965**
Transaction with owners							
Dividends paid	–	–	–	–	–	**(6,000)**	**(6,000)**
Total transaction with owners	–	–	–	–	–	**(6,000)**	**(6,000)**
At 31 December 2018	**300,000**	**300,000**	**(32,373)**	**(107,520)**	**196,512**	**1,665,040**	**2,021,659**
At 1 January 2017	300,000	300,000	–	–	–	710,439	1,010,439
Net profit for the financial year	–	–	–	–	–	929,759	929,759
Other comprehensive expense for the financial year	–	–	–	(149,777)	(1,727)	–	(151,504)
Total comprehensive (expense)/ income for the financial year	–	–	–	(149,777)	(1,727)	929,759	778,255
At 31 December 2017	300,000	300,000	–	(149,777)	(1,727)	1,640,198	1,788,694

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before taxation		**(24,446)**	973,502
Adjustments for:			
Interest expense		**39,169**	58,905
Interest income		**(16,623)**	(16,564)
Depreciation of property, plant and equipment		**169,484**	189,384
Amortisation of prepaid lease payments		**16**	22
Amortisation of intangible assets		**16,634**	16,282
Write back of allowance for inventories, net		**–**	(113)
(Reversal of)/provision for impairment of receivables		**(48)**	1,383
Amortisation of term loan commitment fees		**15,142**	4,541
Net fair value (gain)/loss on derivative financial instruments - unrealised		**(26,847)**	1,549
Net foreign exchange loss/(gain) - unrealised		**13,384**	(14,336)
Reversal of impairment		**(75,152)**	–
Operating profit before changes in working capital		**110,713**	1,214,555
Changes in working capital:			
Inventories		**(117,077)**	(375,786)
Trade, other receivables and amounts receivable from immediate holding company		**116,645**	(357,333)
Trade, other payables and amounts payable to immediate holding company		**254,580**	(20,425)
Cash generated from operations		**364,861**	461,011
Interest received		**16,623**	16,564
Net tax paid		**(1,561)**	(765)
Net cash flows generated from operating activities		**379,923**	476,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment			
- additions		**(532,474)**	(125,980)
Intangible assets			
- additions		**(4,690)**	(3,432)
Net cash flows used in investing activities		**(537,164)**	(129,412)

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		**(2,239,076)**	(86,006)
Proceeds from borrowings		**2,145,825**	–
Interest paid		**(43,414)**	(58,972)
Dividends paid		**(6,000)**	–
Restricted cash for term loan facilities		**(74,878)**	(571)
Refund/(placement) of security deposit placed with a licensed bank for trade facilities		**19,897**	(10,000)
Net cash flows used in financing activities		**(197,646)**	(155,549)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(354,887)**	191,849
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		**492,886**	344,516
EFFECTS OF EXCHANGE RATE CHANGES		**(9,966)**	(43,479)
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	20	**128,033**	492,886

During the financial year ended 31 December 2018, the Company acquired property, plant and equipment with an aggregate cost of RM610,007,000 (2017: RM153,518,000). Cash payments of RM532,474,000 (2017: RM125,980,000) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM97,042,000 (2017: RM27,538,000) is included within accruals for capital expenditure as disclosed in Note 24.

The Company also acquired intangible assets with an aggregate cost of RM843,000 (2017: RM7,534,000) during the financial year, for which cash payments of RM4,690,000 (2017: RM3,432,000) were made. The balance unpaid as at the previous financial year was included within accruals for capital expenditure as disclosed in Note 24.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

1 GENERAL INFORMATION

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the Main Market of the Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The Company regards Malaysia Hengyuan International Limited ("MHIL"), a company incorporated in Labuan, Malaysia and Shandong Hengyuan Petrochemical Group Company Limited, a company incorporated in China, as its immediate and ultimate holding companies respectively.

The address of the registered office of the Company is:

Unit 30-01, Level 30
Tower A, Vertical Business Suite
Avenue 3, Bangsar South
No 8, Jalan Kerinchi
59200 Kuala Lumpur

The address of the principal place of business of the Company is:

Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The financial statements of the Company have been prepared under the historical cost convention, unless otherwise indicated in the summary of significant accounting policies.

All values are rounded to the nearest thousand ("RM'000") except when otherwise indicated.

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. As at 31 December 2018, the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective to the Company

The amendments and improvements to published standards that are effective for the Company's financial year beginning on 1 January 2018 are as follows:

- MFRS 9 "Financial Instruments"
- MFRS 15 "Revenue from Contracts with Customers"
- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Company except for those discussed below:

- MFRS 9 "Financial Instruments"

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss ("FVTPL") and fair value through other comprehensive income ("FVOCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

  – For financial liabilities classified as fair value through profit or loss ("FVTPL"), the fair value changes due to own credit risk should be recognised directly to other comprehensive income. There is no subsequent recycling to profit or loss.

  – When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss.

  MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminated the need for a trigger event to have occurred before credit losses are recognised.

  The new hedge accounting rules aligns the accounting for hedging instruments more closely with the Company's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Hedging relationships established in the previous financial year continue to be treated as cash flow hedges upon adoption of MFRS 9.

  The Company has adopted MFRS 9 retrospectively with the date of initial application on 1 January 2018. In accordance with the transitional provisions provided in MFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under MFRS 139. The requirements of MFRS 9 does not affect the classification and measurement of both its financial assets and financial liabilities. The new disclosures and accounting policies are included throughout the Company's financial statements for the year ended 31 December 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective to the Company (continued)

- MFRS 15 "Revenue from Contracts with Customers"

  MFRS 15 supersedes MFRS118 "Revenue" and related interpretations and it applies to all revenue arising from contracts with customers. The core principal in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods and services.

  A new five-step process is applied before revenue can be recognised:

  – Identify contracts with customers;
  – Identify the separate performance obligations;
  – Determine the transaction price of the contract;
  – Allocate the transaction price to each of the separate performance obligations; and
  – Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:

  – Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must be generally allocated to the separate elements.
  – If the consideration varies, minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  – The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vise versa.
  – There are new specific rules on licences, warranties, non-refundable upfront fees and consignment arrangement, to name a few.
  – As with any new standard, there are also increased disclosures.

  The Company has applied MFRS 15 with the date of initial application of 1 January 2018 by using the modified retrospective transition method. Under the modified retrospective transition method, the Company applies the new policy retrospectively only to contracts at the date of initial application. Accordingly, the 2017 comparative information was not restated and continued to be reported under the previous accounting policies governed under MFRS 118. The adoption of MFRS 15 did not result in any material changes to the timing and measurement of revenue recognition. The new disclosures and accounting policies are included throughout the Company's financial statements for the year ended 31 December 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

(a) Standards, amendments to published standards and interpretations to existing standards that are effective to the Company (continued)

- IC Interpretation 22 "Foreign Currency Transactions and Advance Consideration"

  The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company must determine the date of the transactions for each payment or receipt of advance consideration. The adoption of the IC Interpretation did not have any material impact on the Company as the exchange rates applied are consistent with the clarification in IC Interpretation 22.

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective

The Company will apply the new standards, amendments to published standards and interpretations to existing standards in the financial year beginning on 1 January 2019:

- MFRS 16 "Leases"
- Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)

MFRS 16 "Leases"

MFRS 16 "Leases" supersedes MFRS 117 "Leases" and the related interpretations. Under MFRS 16, a lease is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases or operating leases. MFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognised in profit or loss.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them accordingly.

The Company has reviewed major leasing arrangements in light of the new lease accounting rules in MFRS 16. The standard will affect primarily the accounting for the Company's operating leases.

The Company will apply the standard from its mandatory adoption date of 1 January 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

(b) Standards, amendments to published standards and interpretations to existing standards that are applicable to the Company but not yet effective (continued)

MFRS 16 "Leases" (continued)

The Company expects to recognise right-of-use assets and lease liabilities upon adoption of the standard. The impact is still being assessed.

The Company's activities as a lessor are not material and hence the Company does not expect any significant impact on the financial statements.

Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners. Therefore, the Company will recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. Since the Company's current practice is in line with these amendments, the Company does not expect any effect on its financial statements.

Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)

The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. Since the Company's current practice is in line with these amendments, the Company did not expect any effect on its financial statements.

2.2 FOREIGN CURRENCIES

The basis of accounting for foreign currency transactions is as follows:

(a) Functional and presentation currency

A company's functional currency should reflect the underlying transactions, events and conditions that are relevant to it which includes the currency of the primary economic environment in which a company generates and expends cash, the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained. The Company's functional currency is United States Dollar ("USD").

The Company continues to present its financial statements in RM, consistent with the requirements of Companies Act 2016 which requires financial statements and reports to be quoted in RM. The resulting exchange differences arising from the conversion to RM presentation currency have been recognised within other comprehensive income/expense.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation deemed as cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost of an item of property, plant and equipment initially recognised includes its purchase price, import duties, non-refundable purchase taxes and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the intended manner. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.16 on borrowing costs).

Subsequent to initial recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

Freehold land is not depreciated as it has an infinite life.

All property, plant and equipment are depreciated on a straight-line basis to allocate the cost, or the revalued amounts deemed as cost, to their residual values, over their estimated useful lives at the following annual rates:

Land improvements and buildings	2.5% - 5.0%
Plant, machinery and equipment	9.0% - 33.3%
Motor vehicles	20%

Depreciation on work-in-progress commences when the assets are ready for their intended use.

Plant, machinery and equipment comprise components of the refinery which are subject to different refurbishment cycle. Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

At the end of each reporting period, the Company assesses whether there is any indication of impairment. If such indicators exist, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Refer accounting policy Note 2.7 on impairment of non-financial assets. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.4 MAINTENANCE COSTS

Asset replacement costs incurred by the Company for major scheduled maintenance of the refinery are capitalised as part of the refinery assets and depreciated on a straight-line basis over the period until the next major scheduled maintenance. All other repairs and maintenance are charged to profit or loss in the financial period they are incurred.

2.5 PREPAID LEASE PAYMENTS

Prepaid lease payments are initially measured at cost. Following the initial recognition, prepaid lease payments are measured at cost less accumulated amortisation and accumulated impairment losses. Refer accounting policy Note 2.7 on impairment of non-financial assets. The prepaid lease payments are amortised over their respective lease terms.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 INTANGIBLE ASSETS

Intangible assets comprise software costs that are acquired by the Company, which have finite useful lives, and are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets are amortised from the date that they are available for use and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets.

The estimated useful lives of intangible assets are between 3 and 10 years. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating-units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.8 FINANCIAL ASSETS

Financial assets are recognised in the statement of financial position when, and only when, the Company become a party to the contractual provisions of the financial instrument.

Accounting policies applied from 1 January 2018

(a) Classification

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. The Company reclassifies its debt instruments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FINANCIAL ASSETS (continued)

Accounting policies applied from 1 January 2018 (continued)

(b) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ('SPPI').

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

There are three measurement categories into which the Company classifies its debt instruments.

(i) Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost and subject to impairment. Interest income from these financial assets is included in other income using the effective interest rate method. Gains and losses are recognised in profit or loss within administrative expenses when the asset is derecognised, modified or impaired.

(ii) Fair value through other comprehensive income ('FVOCI')

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent SPPI, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in other income using the effective interest rate method.

(iii) Fair value through profit or loss ('FVTPL')

Assets that do not meet the criteria for amortised cost of FVOCI are measured at FVTPL. The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes is recognised in profit or loss within other operating gains/losses.

(c) Subsequent measurement – impairment

Impairment for debt instruments

From 1 January 2018, the Company assesses on a forward looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company's financial instruments that is subject to ECL model is trade receivables, other receivables and intercompany receivables. While cash and cash equivalents are also subject to impairment requirements of MFRS 9, the identified impairment loss was immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FINANCIAL ASSETS (continued)

Accounting policies applied from 1 January 2018 (continued)

(c) Subsequent measurement – impairment (continued)

Impairment for debt instruments (continued)

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Company expects to receive, over the remaining life of the financial instrument.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For trade receivables, the Company applies the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining useful life of the exposure, irrespective of the timing of default (a lifetime ECL).

Significant increase in credit risk

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information.

The following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor; or
- significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor in the Company and changes in the operating results of the debtor.

Definition of default and credit-impaired financial assets

The Company defines a financial instrument as default, which is fully aligned with the definition of credit-impaired, when it meets one of more of the following criteria:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FINANCIAL ASSETS (continued)

Accounting policies applied from 1 January 2018 (continued)

(c) Subsequent measurement – impairment (continued)

Definition of default and credit-impaired financial assets (continued)

<u>Quantitative criteria:</u>

The Company defines a financial instrument as default, when the counterparty fails to make contractual payment within 90 days of when they fall due.

<u>Qualitative criteria:</u>

The debtor meets unlikeliness to pay criteria, which indicates the debtor is in significant financial liability. The Company considers the following instances:

- the debtor is in breach of financial covenants;
- concessions have been made by the lender relating to the debtor's financial difficulty;
- it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the debtor is insolvent.

Write off

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company.

Impairment losses on trade receivables is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line.

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The assessment of no reasonable expectation of recovery is based on unavailability of debtor's sources of income or assets to generate sufficient future cash flows to repay the amount. The Company may write off financial assets that are still subject to enforcement activity. Subsequent recoveries of amounts previously written off will result in impairment gains.

(d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FINANCIAL ASSETS (continued)

Accounting policies applied until 31 December 2017

(a) Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The Company determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents.

(b) Recognition and initial measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

(c) Subsequent measurement – gains and losses

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise. Gains and losses for loans and receivables are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(d) Subsequent measurement – impairment of financial assets

Assets carried at amortised cost

At the end of the reporting period, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets are impaired only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FINANCIAL ASSETS (continued)

Accounting policies applied until 31 December 2017 (continued)

(d) Subsequent measurement – impairment of financial assets (continued)

Assets carried at amortised cost (continued)

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the customers;
- A breach of contract, such as a default or delinquency in interest or principal payments; or
- It becomes probable that the customers will enter bankruptcy or other financial reorganisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If loans and receivables have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(e) Derecognition

Financial assets are derecognised when the right to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

2.9 DERIVATIVES AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

– Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
– Hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 DERIVATIVES AND HEDGING ACTIVITIES (continued)

Since adoption of MFRS 9, the Company documents at the inception of the hedge relationship, the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions. Prior to 1 January 2018, the Company documented at the inception of the transaction, the relationship between hedging instruments and hedged items and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that were used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 19. Movements in the hedging reserve in shareholders' equity are shown in Note 23. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Cash flow hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within "other operating gains/losses".

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowing is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.
- The gain or loss relating to the effective portion of refining margin swaps hedging the volatility in refining margin is recognised in profit or loss within purchases in the same period as the forecast purchases of crudes and sale of petroleum products took place.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss and deferred cost of hedging in equity is reclassified to profit or loss in the same period that the hedged cash flows affect profit or loss. When hedged future cash flows or forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred cost of hedging that was reported in equity is immediately reclassified to profit or loss.

(b) Cost of hedging reserve

MFRS 9 introduces the concept of "cost of hedging" which is seen as cost of achieving the risk mitigation inherent in the hedge. When refining margin swap contracts are used to hedge forecast transactions, the Company generally designates only the change in fair value of the refining margin swap contracts related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the refining margin swap contracts are recognised in other comprehensive income and accumulated in cash flow hedge reserve within equity. The change in the swap basis spread of the contract that relates to the hedged item is recognised in other comprehensive income and accumulated in costs of hedging reserve within equity.The deferred cost of hedging will be recycled from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 DERIVATIVES AND HEDGING ACTIVITIES (continued)

(c) Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For refining margin swap hedges, the Company enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Company therefore performs a qualitative assessment on the effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Company uses the hypothetical derivative method to assess effectiveness.

In refining margin swap hedges, ineffectiveness may arise if there is a change in delivery date of crude oil, change in volume of hedged items or if there is a change in credit risk of the Company or the derivative counterparty. As all critical terms matched during the year, the economic relationship was 100% effective. In the previous financial year, the amount recognised in profit or loss for refining margin swap hedges is disclosed in Note 9.

The Company enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Company does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for refining margin swap hedges. It may occur due to change in credit risk of the Company or the derivative counterparty, timing of interest rate swaps interest payment or reduction in the notional amount of the interest rate swaps. There was no ineffectiveness during the year in relation to interest rate swaps.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. These derivatives are classified as held for trading and accounted for at fair value through profit or loss in "other operating gains/losses".

(e) Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value.

Crude purchases resulting in variability in the payable associated with the commodity price gives rise to an embedded derivative which is not closely related to the host financial instrument. The Company has an accounting policy choice for subsequent changes in the fair value of the embedded derivative. Cost of inventory could be adjusted to reflect subsequent changes in the fair value of the embedded derivative on the basis that such changes are part of the purchase and other costs incurred in bringing the inventory to its present location and condition. Alternatively, these changes could be charged to profit or loss in accordance on the basis that the cost of inventory is determined at the time of delivery and the bifurcated embedded derivative should be accounted for separately as if it was a freestanding instrument.

The Company opted to reflect subsequent changes in the fair value of the embedded derivative as part of the cost of inventory. The chosen policy will be consistently applied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 TRADE AND OTHER RECEIVABLES

Trade receivables are amounts due from customers for oil products sold in the ordinary course of business. Other receivables generally arise from transactions outside the usual operating activities of the Company. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, where they are recognised at fair value plus transaction costs. Other receivables are recognised initially at fair value plus transaction costs. Transaction costs include transfer taxes and duties.

After recognition, trade and other receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. See accounting policy 2.8 on financial assets.

2.11 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents comprise cash, bank balances, deposits with licensed banks and other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.12 INVENTORIES

Inventories are stated at the lower of cost and net realisable value.

Cost comprises direct purchase costs (including transportation, insurance and premium) and is determined using the first in, first out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity and gains/losses on qualifying cash flow hedges for purchase of raw materials. It excludes borrowing costs. The cost of finished products includes the cost of crude oil, direct materials, labour and an appropriate proportion of fixed and variable manufacturing overheads.

Net realisable value is the estimate of selling price in the ordinary course of business, less any cost of completion and selling expenses.

2.13 FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

(a) Classification

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities held for trading include derivatives entered into by the Company that do not meet the hedge accounting criteria. Liabilities in this category are classified within current liabilities if they are either held for trading or are expected to be settled within 12 months after the reporting date. Otherwise, they are classified as non-current.

(ii) Other financial liabilities

The Company's other financial liabilities include trade payables, other payables, amounts due to immediate holding company and borrowings. Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 FINANCIAL LIABILITIES (continued)

(b) Recognition and initial measurement

Derivative liabilities are initially measured at fair value. Trade and other payables are recognised initially at fair value plus directly attributable transaction costs. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred.

(c) Subsequent measurement – gains and losses

Derivative liabilities are subsequently stated at fair value, with any resultant gains or losses recognised in profit or loss. Net gains or losses on derivatives include exchange differences. Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. For other financial liabilities, gains and losses are recognised in the profit or loss when the financial liabilities are derecognised, and through amortisation process.

(d) Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.14 TRADE PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year after the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value net of transaction costs incurred, which include transfer taxes and duties and subsequently measured at amortised cost using the effective interest method. See accounting policy 2.13 on financial liabilities.

2.15 PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 BORROWINGS AND BORROWING COSTS

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the fair value (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method, except for borrowing costs incurred for the construction of any qualifying asset.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(b) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.17 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy.

2.18 REVENUE

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

Revenue from contracts with customers

(a) Sale of oil products, partially refined oil products and feedstocks

The Company refines and sells oil products, partially refined oil products and feedstocks to customers. Sales are recognised upon transfer of significant title, risk and rewards of ownership of the goods to the customer. This is when products are delivered to the customer, the customer has full discretion over the channel and price to sell the products and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risk of loss has been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or the Company has objective evidence that all criteria for acceptance have been satisfied.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 REVENUE (continued)

(a) Sale of oil products, partially refined oil products and feedstocks (continued)

No element of financing is deemed present as the sales are made with a credit term of 30 days, which is consistent with market practice.

A receivable is recognised when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Procurement of oil products

The Company has contracts with its holding company to acquire, on their behalf, oil products produced by customers. The Company is acting as an agent in these arrangements.

When another party is involved in providing goods or services to its holding company, the Company determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to holding company. The Company is a principal and records revenue on a gross basis if it controls the promised goods before transferring them to holding company. However, if the Company's role is only to arrange for another entity to provide the goods, then the Company is an agent and will need to record revenue at the net amount that it retains for its agency services.

(c) Other income

Other income comprises mainly of operating and transport fees charged to customers.

Revenue from other sources – interest income

Accounting policies applied from 1 January 2018

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Accounting policies applied until 31 December 2017

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.19 PURCHASES

Purchases reflect all costs related to acquisition of inventories and supplies used for conversion into finished products, including the effects of the changes therein (cost of inventories), foreign exchange gains and losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 LEASES

Company as lessee

(a) Finance leases

Leases of property, plant and equipment where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges is included in payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Initial direct costs incurred by the Company in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

(b) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the lease period.

Initial direct costs incurred by the Company in negotiating and arranging operating leases are capitalised as prepayments and recognised in profit or loss over the lease term on a straight-line basis.

2.21 EMPLOYEE BENEFITS

(a) Short-term employee benefits

The Company recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Wages, salaries, paid annual leave, sick leave, bonuses, social security contributions and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) Post-employment benefits

The Company's post-employment benefit scheme comprises only of the defined contribution plan.

Contributions to the Employees' Provident Fund, which is a defined contribution plan, are charged to the profit or loss when incurred. Once the contributions have been paid, the Company has no further payment obligations.

(c) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to the employees. The estimated liability for leave is recognised for services rendered by employees up to the reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 EMPLOYEE BENEFITS (continued)

(d) Long-term employee benefits

The Company provides death in service and long-term disability benefits to its employees. The benefit is on a lump sum basis based on a multiplier of the last drawn average annual salary of the employee and is not dependent on the employee's length of service. Accordingly, it is charged to profit or loss when incurred.

2.22 CURRENT AND DEFERRED INCOME TAX

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the best estimate of the most likely outcome.

Deferred tax assets and liabilities are recognised on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets including tax benefits from reinvestment allowance are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on the taxable entity.

2.23 SHARE CAPITAL

(a) Classification

An equity instrument is any contract that evidence a residual interest in the assets of the Company, after deducting all of its liabilities. Ordinary shares are classified as equity. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs.

(b) Dividend distribution

Dividend distribution to owners of the Company is debited directly to equity. The corresponding liability is recognised in the period in which the dividends are approved.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in the ordinary shares issued during the year and excluding treasury shares.

2.25 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company does not recognise contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past event whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

2.26 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

No segmental information is considered necessary for analysis by business or by geographical segments. This is because the Company is principally engaged in the business of refining and manufacturing of petroleum products in Malaysia, which is a single business segment. Also, the Company's primary segment operations are also concentrated within Malaysia, hence operating within a single geographical segment.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year is:

(a) Reversal of impairment of plant, machinery and equipment

The Company reviews the carrying amount of its plant, machinery and equipment in accordance to its accounting policy stated in Note 2.7. The Company's results from operations in any given period are principally driven by the demand for and price of petroleum products relative to the supply and cost of crude oil.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Reversal of impairment of plant, machinery and equipment (continued)

The Company has confirmed its intention to implement necessary upgrades to the refinery which will ensure compliance with future changes in regulations for product specification. In view of this, the Directors undertook a review of the carrying amount of the plant, machinery and equipment. The recoverable amount of the plant, machinery and equipment, being defined as a cash-generating-unit, was determined using the value in use ('VIU') method based on management's internal assessment benchmarked to external sources. The VIU is the net present value of the projected future cashflow derived from the asset discounted at an appropriate discount rate.

Key assumptions considered in the VIU calculations include projected refining margins adjusted for planned turnaround activities as well as margin uplift initiatives from crude optimisation. The VIU calculations also took into account the planned capital expenditure and incremental operating costs anticipated to ensure compliance with future changes in product specification regulations. The assessment was based on a 20-year projected cash flow.

Accordingly, the Directors are of the view that reversal of impairment to the carrying amount of the refinery of RM75,152,000 is required after taking into consideration of the successful completion of the Major Turnaround 2018 and Atlas II projects and the progress of other key regulatory driven projects, namely Euro4M Mogas, H2Gen and Clean Air Regulation units.

The following key assumptions were made in determination of the recoverable amount:

(i) Refinery margins per barrel: Between USD3.00 to USD5.82

(ii) Pre-tax discount rate: 14.8%

(iii) Capital expenditure: Based on Final Investment Decision and planned capital expenditure

(iv) Production volume: Based on existing production capacity

(b) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits.

Assumptions about generation of future taxable profits depends on management's estimates of future cash flows. These depends on estimates of future production and sales volume, operating costs and capital expenditure. Judgement is also required about application of income tax legislation. These judgements and assumptions are subject to risks and uncertainty hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognised in the statement of financial position and the amount of unrecognised tax losses and unrecognised temporary differences.

In the current financial year, the Company has recognised deferred tax assets of RM111,641,000 and RM40,464,000 of unused tax losses and unabsorbed capital allowances respectively as the Directors considered that it is probable that taxable profits will be available against which the losses and capital allowances can be utilised.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks; market risk (including foreign currency exchange risk, interest rate risk, commodity price risk and refining margin risk), credit risk, liquidity and cash flow risk and capital risk. The Company's overall financial risk management objective is to ensure the Company creates value for its shareholders. The Company focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Financial risk management is carried out through risk reviews, assurance plans, internal control systems, insurance programmes and adherence to the Company's Treasury Policy and Procedures.

The Company may enter into foreign exchange forward contracts to manage its exposure to foreign currency risks in receivables and payables. Straightforward derivative financial instruments are utilised by the Company to manage the exposure to foreign currency exchange risk, commodity price risk, refining margin risk and interest rate risks. The Company does not enter into derivative financial instruments that are speculative in nature.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate loans and locking the refining margin for the hedged forecast purchases and sales.

The Company's accounting policy on its cash flow hedges is set out on Note 2.9(a).

For information about the methods and assumptions used in determining the fair value of derivatives refer to Note 5.

(a) Market risk

Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and prices will affect the Company's financial position and cash flows.

(i) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The objective of the Company's currency risk management policies is to allow the Company to effectively manage exposures that may arise from operating and financing activities.

The Company is exposed to currency risk as a result of foreign currency transactions entered into in currencies other than its functional currency. On 1 January 2017, the Company changed its functional currency from Ringgit Malaysia ("RM") to United States Dollar ("USD"). Due to the change in functional currency, the Company's exposure to foreign currency exchange risk had changed from USD to RM. The financial assets and liabilities affected by foreign currency risk include receivables and payables and bank balances.

The Company may enter into foreign currency swaps and forward contracts to limit its exposure on foreign currency receivables and payables and on cash flows generated from anticipated transactions denominated in foreign currencies. These foreign currency receivables and payables do not qualify as "highly probable" forecast transactions and hence do not satisfy the requirements for hedge accounting (economic hedges). The foreign currency swaps and forward contracts are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as "held for trading" with gains/(losses) recognised in profit or loss.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

The following analysis illustrates the Company's sensitivity to changes in RM to USD exchange rate:

	Increase/(decrease) in profit before tax	
	2018	**2017**
	RM'000	**RM'000**
RM strengthens by 10%	**68,791**	99,882
RM weakens by 10%	**(68,791)**	(99,882)

The Company's exposure to other foreign exchange movements is not material.

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company finances its operations through a mixture of retained earnings and bank borrowings. The Company's interest rate risk arises from borrowings at variable rates and deposits with licensed banks and are managed in compliance with the treasury policy of the Company.

During the financial year, the Board has approved a policy for the hedging of interest rates as part of the Company's risk management policy.

Generally, the Company enters into long-term borrowings at floating rates and swaps them into fixed rates. The Company's borrowings at variable rate is denominated in USD.

Interest rate swaps currently in place cover approximately 79% of the variable loan principal outstanding. The fixed interest rates of the swaps range between 2.96% to 3.03% and the variable rates of the loans are between 2.21% to 2.58%.

The interest rate swap contracts require settlement of net interest receivable or payable every 90 days. The settlement date coincides with the dates on which interest is payable on the underlying debt.

Surplus funds are placed with licensed financial institutions to earn interest income based on prevailing market rates. The Company manages its interest rate risks by placing such funds on short tenures of 12 months or less.

The interest rate profile of the Company's significant interest-bearing financial instrument have been presented in Notes 20 and 26.

Cash flow sensitivity analysis for variable rate instruments

The Company analyses its cash flow interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments (continued)

Based on these scenarios, the Company calculates the impact on profit or loss of a defined interest rate shift, after the impact of hedge accounting. With all other variables held constant, the Company's profit before tax is affected as below:

	Increase/(decrease) in profit before tax	
	2018 RM'000	2017 RM'000
100 basis points increase in interest rate	**(5,899)**	(9,103)
100 basis points decrease in interest rate	**5,899**	9,103

(iii) Commodity price risk and refining margin risk

The Company is exposed to fluctuations in crude oil and petroleum product prices which may affect the value of the Company's assets, liabilities or expected future cash flows. The Company has an approved policy to hedge refining margin as part of the Company's risk management policy. Refining margins are hedged based on the Company's physical exposures to prices of crude oil and its 3 main products namely mogas, gasoil and jet fuel. Competitive quotes are obtained from counterparties and compared to published prices as a basis for entering into a hedge. The purpose of executing these hedges are to stabilise refining margins exposure towards achieving a sustainable profit over the short and medium term.

In addition to hedging its refining margins, the Company also uses commodity swaps and options to manage some of its transaction exposures. These commodity swaps and options are not designated as cash flow hedges and are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as "held for trading" with gains/(losses) recognised in profit or loss.

The table shows the effect of market price changes on the fair value of the Company's commodity swaps and options:

	Increase/(decrease) in profit before tax	
	2018 RM'000	2017 RM'000
10% increase in commodity price	**(22,141)**	–
10% decrease in commodity price	**22,141**	–

The table shows the effect of price changes on the fair value of the Company's refining margin swaps:

	Increase/(decrease) in equity	
	2018 RM'000	2017 RM'000
10% increase in refining margin	**(121,564)**	(19,347)
10% decrease in refining margin	**121,564**	19,347

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. At the reporting date, the Company's maximum exposure to credit risk is represented by the carrying amounts of each class of financial assets recognised in the statement of financial position.

(i) Receivables

Credit risk on customers arises when sales are made on deferred credit terms. It seeks to control credit risk by setting counterparty limits and ensuring that sales of products are made only to approved customers with an appropriate credit history. It is the Company's policy to monitor the financial standing of the customers on an ongoing basis to ensure that the Company is exposed to a minimal credit risk. The maximum credit exposure associated with financial assets is equal to the carrying amount.

76% (2017: 78%) of the Company's total receivables at the reporting date are due from two (2017: two) major customers in the oil and gas industry in Malaysia. The Directors are of the view that such credit risk is minimal in view of the strength of the customers' financial position and no history of default from these major customers.

For some trade receivables, the Company may obtain security in the form of guarantees, deeds of underwriting of letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rates are based on days past due and coverage by letters of credit and historical credit losses of the customers. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events and current conditions. Generally, trade receivables are written off if past due for more than one year unless it is covered by letters of credits. These letters of credit are considered integral part of trade receivables and considered in the calculation of impairment.

Information about credit exposure on the Company's trade receivables is disclosed in Note 17.

(ii) Deposits with licensed banks, bank balances and favourable derivative financial instruments

The Company seeks to invest cash assets safely and profitably. Deposits, forward contracts and interest rate swaps entered into are placed only with financial institutions with strong long-term credit ratings based on independent rating agencies. The likelihood of non-performance by these financial institutions is remote based on their high credit ratings.

For other favourable derivative financial instruments such as refining margin swaps, commodity swaps and forward priced commodity contracts, these are also entered into with counterparties with strong long-term credit ratings based on independent agencies. In addition, the Company may obtain security which can be called upon if the counterparty is in default under terms of agreement.

None of the financial assets have been renegotiated in the current financial year.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity and cash flow risks

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's exposure to liquidity risk arises principally from its payables and borrowings. The Company ensures that cash is available to meet working capital and other financing obligations, and that cash flows are managed efficiently. This is done through cash forecasts to achieve optimal cash management planning. The Company sets a minimum level of cash to be held on a daily basis in order to meet both firm commitments and forecast obligations. The Company has access to undrawn facilities from its revolving credits subject to scheduled repayment of its term loans.

As at 31 December 2018, there are outstanding borrowings amounting to RM1,150,632,000 (2017: RM1,205,008,000). The outstanding borrowings as at previous reporting date had been repaid in the current financial year using a mix of cash flows generated from operations and new financing facility as disclosed in Note 26.

All financial liabilities of the Company that will be due and payable within the next 12 months are classified within current liabilities. The contractual cash flows of derivative financial liabilities and non-derivative financial liabilities are presented below:

At 31 December 2018	Within 1 year RM'000	Between 1 to 2 years RM'000	Between 2 to 5 years RM'000	Total contractual undiscounted cash flows RM'000	Total carrying amount RM'000
Non-derivative financial liabilities					
Trade and other payables excluding statutory liabilities	916,038	–	–	916,038	916,038
Amounts due to immediate holding company	24,982	–	–	24,982	24,982
Borrowings	578,222	166,731	480,588	1,225,541	1,150,632
	1,519,242	166,731	480,588	2,166,561	2,091,652
Derivative financial liabilities					
Refining margin swap contracts	2,524	–	–	2,524	2,524
Commodity options	2,169	–	–	2,169	2,169
Interest rate swap contracts	–	–	6,329	6,329	6,329
Forward foreign currency contracts (gross settled)					
- inflow	(417,592)	–	–	(417,592)	(417,592)
- outflow	421,149	–	–	421,149	421,149
	8,250	–	6,329	14,579	14,579
	1,527,492	166,731	486,917	2,181,140	2,106,231

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity and cash flow risks (continued)

At 31 December 2017	Within 1 year RM'000	Between 1 to 2 years RM'000	Between 2 to 5 years RM'000	Total contractual undiscounted cash flows RM'000	Total carrying amount RM'000
Non-derivative financial liabilities					
Trade and other payables excluding statutory liabilities	586,705	–	–	586,705	586,705
Amounts due to immediate holding company	14,200	–	–	14,200	14,200
Borrowings	138,284	182,186	1,083,432	1,403,902	1,205,008
	739,189	182,186	1,083,432	2,004,807	1,805,913
Derivative financial liabilities					
Refining margin swap contracts	5,619	–	–	5,619	5,619
Forward priced commodity contracts	7,731	–	–	7,731	7,731
Forward foreign currency contracts (gross settled)					
- inflow	(221,756)	–	–	(221,756)	(221,756)
- outflow	223,218	–	–	223,218	223,218
	14,812	–	–	14,812	14,812
	754,001	182,186	1,083,432	2,019,619	1,820,725

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Capital risk management

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern;
- to maximise returns for shareholders; and
- to maintain an optimal capital structure which minimises the cost of capital while maintaining sufficient liquidity.

The Company monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings divided by total capital. The capital structure of the Company consists of borrowings and total equity:

	2018 RM'000	2017 RM'000
Total borrowings	**1,150,632**	1,205,008
Total equity	**2,021,659**	1,788,694
Total borrowings	**1,150,632**	1,205,008
Total capital	**3,172,291**	2,993,702
Gearing ratio	**36%**	40%

The borrowings of the Company are subject to the banks' covenants, which include debt service cover ratio, liability to asset ratio, current ratio and net debt to earnings before interest, tax, depreciation, and amortisation (EBITDA) ratio , which the Company has complied with.

5 FAIR VALUE MEASUREMENTS

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The carrying amounts of financial assets and liabilities classified within current assets and current liabilities respectively approximate their fair values due to the relatively short term nature of these financial instruments.

Non-derivative financial liabilities

Fair values of non-derivative financial liabilities are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the end of the reporting period.

Financial instruments carried at amortised cost

The carrying amounts of financial assets and liabilities measured at amortised cost approximate their respective fair values.

Financial instruments carried at fair value

Refining margin swap contracts, forward foreign currency contracts, forward priced commodity contracts, commodity options, commodity swap contracts and interest rate swap contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing model, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and foreign exchange spot and forward rates.

5 FAIR VALUE MEASUREMENTS (continued)

Fair value hierarchy

The Company measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

Derivative financial instruments outstanding as at 31 December 2018 are detailed below:

	As at 31 December 2018	
Derivatives	**Notional Value USD'000**	**Fair Value RM'000**
Refining margin swap contracts, net	**385,909**	**233,807**
Forward foreign currency contracts	**100,880**	**(3,557)**
Forward priced commodity contracts	**54,706**	**26,209**
Commodity options, net	**560**	**1,291**
Commodity swap contracts	**59,405**	**22,291**
Interest rate swap contracts	**137,500**	**(6,329)**

	As at 31 December 2017	
Derivatives	**Notional Value USD'000**	**Fair Value RM'000**
Refining margin swap contracts	40,826	(2,121)
Forward foreign currency contracts	55,000	(1,462)
Forward priced commodity contracts	51,030	(7,731)

The table below summarises all financial instruments carried at fair value as at reporting date, based on a hierarchy that reflects the significance of the inputs used in measuring its respective fair values.

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets/(liabilities)				
Derivative financial assets:				
- Refining margin swap contracts	–	**236,331**	–	**236,331**
- Forward priced commodity contracts	–	**26,209**	–	**26,209**
- Commodity options	–	**3,460**	–	**3,460**
- Commodity swap contracts	–	**22,291**	–	**22,291**
Derivative financial liabilities:				
- Refining margin swap contracts	–	**(2,524)**	–	**(2,524)**
- Forward foreign currency contracts	–	**(3,557)**	–	**(3,557)**
- Commodity options	–	**(2,169)**	–	**(2,169)**
- Interest rate swap contracts	–	**(6,329)**	–	**(6,329)**
At 31 December 2018	–	**273,712**	–	**273,712**

5 FAIR VALUE MEASUREMENTS (continued)

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets/(liabilities)				
Derivative financial assets:				
- Refining margin swap contracts	–	3,498	–	3,498
Derivative financial liabilities:				
- Refining margin swap contracts	–	(5,619)	–	(5,619)
- Forward foreign currency contracts	–	(1,462)	–	(1,462)
- Forward priced commodity contracts	–	(7,731)	–	(7,731)
At 31 December 2017	–	(11,314)	–	(11,314)

During the year, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement. The fair values were obtained from published rates of counterparties.

6 REVENUE

	2018 RM'000	2017 RM'000
Sale of oil products:		
- refined	**11,239,519**	11,579,846
- crude oil	**1,718**	3,621
	11,241,237	11,583,467

The sale of oil products is recognised at point in time.

7 OTHER INCOME

	2018 RM'000	2017 RM'000
Interest income	**16,623**	16,564
Operating and transport fees	**24**	14,200
Cost recovery from intellectual property buy-out	**1,129**	–
	17,776	30,764

8 FINANCE COST

	2018 RM'000	2017 RM'000
Interest expense:		
- borrowings	**37,241**	58,905
- amortisation of term loan commitment fees	**15,142**	4,541
- interest rate swaps	**1,928**	–
Total interest expense	**54,311**	63,446
Others	**–**	233
	54,311	63,679

9 (LOSS)/PROFIT BEFORE TAXATION

	2018 RM'000	2017 RM'000
The (loss)/profit before taxation is arrived at after charging/(crediting):		
Auditors' remuneration:		
- statutory audit fees	**378**	355
- audit-related fees	**111**	135
- fees for non-audit services	**254**	58
Cost of inventories	**10,871,294**	10,156,363
Write back of allowance for inventories	**–**	(113)
Staff cost:		
- salaries, bonus and allowances	**87,684**	75,691
- defined contribution plan	**12,133**	11,315
- other employee benefits	**7,010**	7,933
Foreign exchange loss/(gain)		
- realised	**76,972**	(56,962)
- unrealised	**13,384**	(25,494)
Net fair value (gain)/loss on derivative financial instruments	**(82,001)**	1,549
Ineffective portion of cash flow hedges	**–**	(25)
Depreciation of property, plant and equipment	**169,484**	189,384
Amortisation of prepaid lease payments	**16**	22
Amortisation of intangible asset	**16,634**	16,282
(Reversal of)/provision for impairment of receivables	**(48)**	1,383

10 TAXATION

	2018 RM'000	2017 RM'000
Current tax – Malaysian tax		
- current financial year	**–**	109
- under accrual in prior year	**1,583**	–
	1,583	109
Deferred taxation (Note 27)		
- origination and reversal of temporary differences	**(23,495)**	43,634
- over accrual in prior year	**(33,376)**	–
	(56,871)	43,634
Taxation recognised in profit or loss	**(55,288)**	43,743
Deferred taxation (Note 27)		
- origination and reversal of temporary differences	**52,295**	(545)
Taxation recognised in other comprehensive income	**52,295**	(545)

Income tax is calculated at the Malaysian statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year. The numerical reconciliation between the effective tax rate and the applicable statutory tax rate is as follows:

	2018 %	2017 %
Applicable statutory tax rate	**(24)**	24
Tax effects in respect of:		
- expenses not deductible for tax purposes	**56**	1
- income not subject to tax	**(10)**	–
- income not taxable due to differences between functional and tax reporting currency	**(118)**	(1)
- over accrual in prior years arising from difference in tax treatment on functional currency	**(136)**	–
- under accrual in prior year	**6**	–
- utilisation of tax losses/deductible temporary differences previously not recognised	**–**	(19)
Effective tax rate	**(226)**	5

11 EARNINGS PER UNIT OF SHARE

Basic earnings per unit of share of the Company is calculated by dividing the profit for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	2018	2017
Profit for the financial year (RM'000)	**30,842**	929,759
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic earnings per unit of share (sen)	**10**	310

12 DIRECTORS' REMUNERATION

	2018 RM'000	2017 RM'000
Fees	**1,974**	928
Salaries, bonus and allowances	**36**	1,909
	2,010	2,837

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM57,000 (2017: RM60,000).

13 PROPERTY, PLANT AND EQUIPMENT

2018	Freehold land RM'000	Land improvements RM'000	Buildings RM'000	Plant, machinery, equipment and motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost or deemed cost						
At 1 January	45,797	14,169	98,876	3,106,513	159,735	3,425,090
Additions	–	–	–	–	610,007	610,007
Write off	–	–	–	(53,932)	–	(53,932)
Reclassification	–	–	–	332,780	(332,780)	–
Effect of exchange rate changes	913	282	1,975	69,329	10,477	82,976
At 31 December	46,710	14,451	100,851	3,454,690	447,439	4,064,141
Accumulated depreciation						
At 1 January	–	13,019	58,016	2,200,077	–	2,271,112
Charge for the financial year	–	109	2,214	167,161	–	169,484
Write off	–	–	–	(53,932)	–	(53,932)
Effect of exchange rate changes	–	263	1,217	46,884	–	48,364
At 31 December	–	13,391	61,447	2,360,190	–	2,435,028
Accumulated impairment losses						
At 1 January	–	–	–	417,144	–	417,144
Reversal of impairment	–	–	–	(75,152)	–	(75,152)
Effect of exchange rate changes	–	–	–	6,351	–	6,351
At 31 December	–	–	–	348,343	–	348,343
Carrying amount						
At 31 December	46,710	1,060	39,404	746,157	447,439	1,280,770

13 PROPERTY, PLANT AND EQUIPMENT (continued)

2017	Freehold land RM'000	Land improvements RM'000	Buildings RM'000	Plant, machinery, equipment and motor vehicles RM'000	Work-in-progress RM'000	Total RM'000
Cost or deemed cost						
At 1 January	50,598	15,654	109,242	3,427,178	21,434	3,624,106
Additions	–	–	–	–	153,518	153,518
Reclassification	–	–	–	4,821	(4,821)	–
Effect of exchange rate changes	(4,801)	(1,485)	(10,366)	(325,486)	(10,396)	(352,534)
At 31 December	45,797	14,169	98,876	3,106,513	159,735	3,425,090
Accumulated depreciation						
At 1 January	–	14,172	61,636	2,236,138	–	2,311,946
Charge for the financial year	–	203	2,362	186,819	–	189,384
Effect of exchange rate changes	–	(1,356)	(5,982)	(222,880)	–	(230,218)
At 31 December	–	13,019	58,016	2,200,077	–	2,271,112
Accumulated impairment losses						
At 1 January	–	–	–	460,878	–	460,878
Effect of exchange rate changes	–	–	–	(43,734)	–	(43,734)
At 31 December	–	–	–	417,144	–	417,144
Carrying amount						
At 31 December	45,797	1,150	40,860	489,292	159,735	736,834

Assets pledged as security

Property, plant and equipment as at 31 December 2018 are pledged as security for borrowings as disclosed in Note 26.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2018 is RM6,321,000 (2017: Nil). The rate used to determine the amount of borrowing costs eligible for capitalisation is 4.9% which is the weighted average of the borrowing costs applicable to the borrowings of the Company.

Reversal of impairment

During the financial year, the Company partially reversed the impairment of its plant, machinery and equipment which was previously recognised in financial year ended 31 December 2014. The reversal was made following an annual assessment of the assets' recoverable amount. The recoverable amount, which was based on the value in use of the refinery's assets was determined using average projected margins from external sources, adjusted for operating and committed capital expenditure. Refer Note 3(a) for the key assumptions used.

Change in accounting estimates over estimated useful life of refinery

The Board has reviewed the remaining useful lives of the refinery following the assessment of the assets' recoverable amount. Due to this, the estimated useful lives of some refinery assets is revised from 7 years to between 11 to 28 years. The revision of the estimate has been applied on a prospective basis. The impact of the change in estimate on the Company's profit or loss is a decrease in depreciation of RM 10,785,000 for the current financial year.

14 PREPAID LEASE PAYMENTS

	2018 RM'000	2017 RM'000
As at 1 January	**1,632**	1,824
Amortisation for the financial year	**(16)**	(22)
Effect of exchange rate changes	**27**	(170)
As at 31 December	**1,643**	1,632

Prepaid lease payments as at 31 December 2018 are pledged as security for borrowings as disclosed in Note 26.

The amortisation of prepaid lease payments is included in the "depreciation and amortisation" line item in the profit or loss.

15 INTANGIBLE ASSETS

	2018 RM'000	2017 RM'000
Cost		
At 1 January	**56,862**	54,967
Additions	**843**	7,534
Effect of exchange rate changes	**1,159**	(5,639)
At 31 December	**58,864**	56,862
Accumulated amortisation		
At 1 January	**18,429**	3,523
Amortisation for the financial year	**16,634**	16,282
Effect of exchange rate changes	**769**	(1,376)
At 31 December	**35,832**	18,429
Carrying amount		
At 31 December	**23,032**	38,433

Intangible assets mainly relate to costs incurred by the Company in setting up its standalone IT systems.

The useful life of IT development and software is 3 years (2017: 3 years).

The amortisation of IT development and software costs are included in the "depreciation and amortisation" line item in the profit or loss.

16 INVENTORIES

	2018 RM'000	2017 RM'000
Crude oil	**723,746**	653,215
Petroleum products	**473,617**	432,524
Less: Reversal of allowance for inventories	**–**	482
At 31 December	**473,617**	433,006
Materials	**20,797**	24,093
Allowance for inventories	**–**	(369)
	20,797	23,724
	1,218,160	1,109,945

Included within crude oil is stock in transit as at 31 December 2018 of RM305,292,000 (2017: RM149,492,000).

Inventories as at 31 December 2018 are pledged in favour of a vendor to secure credit lines for crude oil purchases. Amounts in excess of the vendor credit lines are pledged as security for borrowings as disclosed in Note 26.

17 TRADE RECEIVABLES

	2018 RM'000	2017 RM'000
Trade receivables	**917,094**	1,082,584
Less: Provision for impairment	**(1,254)**	(1,306)
Trade receivables	**915,840**	1,081,278

The credit terms range between 15 to 30 days (2017: 15 to 30 days).

(i) Ageing of trade receivable balances as at the reporting date that are past due but not impaired are as follows:

	2018 RM'000	2017 RM'000
Neither past due nor impaired	**913,808**	1,017,086
1 to 30 days past due but not impaired	**1,846**	46,123
30 to 180 days past due but not impaired	**–**	5,191
More than 180 days past due but not impaired	**186**	12,878
	2,032	64,192
	915,840	1,081,278

17 TRADE RECEIVABLES (continued)

(ii) Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired relate to customers with no recent history of default. Management believes these balances are collectible as the customers are of good credit quality. As such, no allowance for impairment of trade receivables is recognised.

(iii) Receivables that are past due but not impaired

As at 31 December 2018, trade receivables amounting to RM2,032,000 (2017: RM64,192,000) were past due but not impaired. Management is of the view that these amounts are recoverable based on historical collection trends.

(iv) Receivables that are impaired

Movement on the allowance for impairment of trade receivables is as follows:

	2018 RM'000	**2017 RM'000**
As at 1 January	**1,306**	–
(Reversal of)/provision for impairment	**(48)**	1,383
Effect of exchange rate changes	**(4)**	(77)
As at 31 December	**1,254**	1,306

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Company does not hold any collateral as security.

Trade receivables as at 31 December 2018 are pledged in favour of a vendor to secure credit lines for crude oil purchases. Amounts in excess of the vendor credit lines are pledged as security for borrowings as disclosed in Note 26.

18 OTHER RECEIVABLES AND PREPAYMENTS

	2018 RM'000	**2017 RM'000**
Goods and Service Tax ('GST') receivable	**201,159**	160,235
Other receivables and deposits	**22,560**	3,582
Prepayments	**3,929**	2,479
Sales tax receivables	**695**	–
	228,343	166,296

The carrying amounts of financial assets (excluding prepayments, sales tax and GST) at the end of reporting date approximated their fair values.

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

The Company has the following derivative financial instruments:

	2018 RM'000	2017 RM'000
Current assets		
Refining margin swap contracts – cash flow hedges	**94,619**	3,498
Refining margin swap contracts – held for trading	**8,320**	–
Forward priced commodity contracts – held for trading	**26,209**	–
Commodity swap contracts – held for trading	**22,291**	–
	151,439	3,498
Non-current assets		
Refining margin swap contracts – cash flow hedges	**133,392**	–
Commodity options – held for trading	**3,460**	–
	136,852	–
Current liabilities		
Refining margin swap contracts – cash flow hedges	**244**	5,619
Refining margin swap contracts – held for trading	**2,280**	–
Forward priced commodity contracts – held for trading	**–**	7,731
Commodity options – held for trading	**2,169**	–
Forward foreign currency contracts – held for trading	**3,557**	1,462
	8,250	14,812
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	**6,329**	–

Derivatives designated as hedging instrument

(a) Refining margin swap contracts

The Company purchases crude on an ongoing basis as the Company requires continuous supply of crude to produce petroleum products. As a result of the volatility in crude price, the Company held refining margin swaps designated as hedge of highly probable forecast crude purchases or firm commitments and sales of petroleum products to reduce the volatility of cash flows.

The contracts are intended to hedge the volatility of the refining margin (differences between purchase price of crude oil and sales price of petroleum products) for a period between 1 to 24 months (2017: 1 to 4 months). There was no forecast transactions for which hedge accounting had previously been used, but which is no longer expected to occur.

The cash flow hedges of the highly probable forecast crude purchases or firm purchase commitments and sales of petroleum products were assessed to be highly effective and as at 31 December 2018, a net unrealised gain of RM221,934,050 (2017: unrealised loss of RM2,272,000), with a related deferred tax liability of RM53,264,000 (2017: deferred tax asset of RM545,000) was included in other comprehensive income in respect of these contracts. There is no ineffectiveness portion of hedge accounting during the current financial year. The ineffectiveness portion recognised in "other operating gains/(losses)" in the profit or loss in the previous financial year was RM25,000, as disclosed in Note 9.

The amounts retained in other comprehensive income at 31 December 2018 are expected to mature and affect the profit or loss between 2019 to 2020. The amounts retained in other comprehensive income in the previous financial year had matured and had been recycled to profit or loss.

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

Derivatives designated as hedging instrument (continued)

(a) Refining margin swap contracts (continued)

The effects of the refining margin swaps on the Company's financial position and performance are as follows:

	2018	**2017**
Carrying amount asset/(liability), net (RM'000)	**227,767**	(2,121)
Notional value (USD'000)	**356,404**	40,826
Maturity date	**January 2019 to December 2020**	January 2018 to April 2018
Hedge ratio (%)	**100**	100
Change in fair value of designated hedging instruments (RM'000)	**264,532**	(2,272)
Change in value of hedged item used to determine hedge effectiveness (RM'000)	**(264,532)**	2,272
Gross margin per barrel (USD)	**13.75 to 23.05**	11.30 to 12.40

(b) Interest rate swap contracts

In the current financial year, the Company enters into interest rate swap contracts to hedge cash flow interest rate risk arising from floating rate term loans (Note 26). This interest rate swap receives floating interest equal to LIBOR, pays a fixed rate of between 2.96% to 3.03% and has the same maturity terms as the term loans.

The management considers the interest rate swaps as an effective hedging instrument as the term loans and the swaps have identical critical terms. During the year, a net unrealised loss of RM6,167,000, with a related deferred tax asset of RM1,480,000 was included in other comprehensive income in respect of these contracts. There was no ineffectiveness recognised in the current financial year.

The effects of the interest rate swap contracts on the Company's financial position and performance are as follows:

	2018	**2017**
Carrying amount (liability) (RM'000)	**(6,329)**	–
Notional amount (USD'000)	**137,500**	–
Maturity date	**February 2023**	–
Hedge ratio (%)	**100**	–
Change in fair value of outstanding hedging instruments since 1 January (RM'000)	**(6,167)**	–
Change in value of hedged item used to determine hedge effectiveness (RM'000)	**6,175**	–
Weighted average hedged rate for the year (%)	**2.97**	–

Refer to Note 23 for impact of hedging on cash flow hedge reserve and cost of hedging reserve.

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

Derivatives not designated as hedging instrument

(a) Forward foreign exchange contracts

The Company enters into forward foreign currency contracts to protect the Company from movements in exchange rates by establishing the rate at which foreign currency asset or liability will be settled. Forward currency contracts are mainly used to hedge cash receipts and cash payments denominated in currency other than USD.

(b) Forward priced commodity contracts

The Company entered into crude purchase contracts with variability in the payables. The delivery and control of the crude is transferred at delivery date. The Company recognised the purchase of the crude as inventory on delivery date based on the forward priced of the crude. The variability in the payable associated with the crude price gives rise to an embedded derivative which is not closely related to the purchase contract. The embedded derivative is separated from the variable payables relating to the purchase of inventory. The Company has elected to adjust and reflect subsequent changes in the fair value of the embedded derivative as part of the cost of inventory.

(c) Commodity options, commodity swap contracts and refining margin swap contracts

The Company also uses commodity options, commodity swap contracts and refining margin swap contracts to manage its commodity price risk and inventory holding cost. The Company does not designate these derivatives as hedging instrument.

20 CASH AND CASH EQUIVALENTS

	2018 RM'000	2017 RM'000
Deposits with licensed banks	–	310,000
Bank balances	**204,880**	202,907
Less: Restricted cash	**(76,847)**	(20,021)
	128,033	492,886

The deposits held at call with banks had been lifted in the current financial year. The deposits held at call with banks earned interest at a rate of 3.2% in the previous financial year. Restricted cash comprise of amounts held in a debt service accrual account associated with the term loan facilities. Restricted cash as at 31 December 2017 also included a RM10,000,000 security deposit placed with a licensed bank for trade facilities. This security deposit has since been released.

21 SHARE CAPITAL

	2018 RM'000	2017 RM'000
Authorised 300,000,000 units of ordinary shares		
At 1 January	–	300,000
Transition to no authorised share capital regime on 31 January 2017 under the Companies Act 2016	–	(300,000)
At 31 December	–	–
Issued and fully paid 300,000,000 units of ordinary shares		
At 1 January/At 31 December	**300,000**	300,000

The new Companies Act 2016 (the "Act") which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

22 RETAINED EARNINGS

The Company is able to distribute dividends out of its retained earnings under the single-tier system.

23 OTHER RESERVES

(a) Cash flow hedge reserve and cost of hedging reserve

The cash flow hedge reserve is used to record gains and losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

The cost of hedging is seen as cost of achieving the risk mitigation inherent in the hedge. It is incurred to protect the Company against unfavourable changes in price. The changes in the cost of hedging is initially recognised in other comprehensive income and removed from equity and recognised in profit or loss in the same period that the hedged cash flows affect profit or loss.

	Cash flow hedge reserve RM'000	Cost of hedging reserve RM'000
2018		
At 1 January	**(1,727)**	**–**
Interest rate swap contracts	**(7,752)**	**–**
Refining margin swap contracts	**193,459**	**(42,598)**
Recycled to profit or loss included in finance cost (Note 8)	**1,928**	**–**
Recycled to profit or loss included in purchases	**73,124**	**–**
Deferred tax	**(62,520)**	**10,225**
At 31 December	**196,512**	**(32,373)**
2017		
At 1 January	–	–
Refining margin swap contracts	(2,272)	–
Deferred tax	545	–
At 31 December	(1,727)	–

23 OTHER RESERVES (continued)

(b) Exchange translation reserve

The exchange translation reserve represents the exchange differences arising from the translation of the financial statements of the Company whose functional currency is different from the presentation currency.

24 TRADE AND OTHER PAYABLES

	2018 RM'000	2017 RM'000
Trade payables	**70,189**	134,367
Accruals for crude oil and petroleum products	**591,895**	366,613
Sundry accruals	**138,296**	44,517
Accruals for consumables and services	**20,313**	8,526
Accruals for capital expenditure	**99,594**	33,274
	920,287	587,297

The Company's trade payables are non-interest bearing, unsecured, except for a balance amounting to RM427,240,000 (2017: RM232,710,000) which is secured by a charge against the Company's hydrocarbon inventories and receivables as mentioned in Notes 16 and 17. The credit terms for trade payables range from 30 to 45 days (2017: 30 to 45 days).

25 AMOUNTS DUE FROM/(TO) IMMEDIATE HOLDING COMPANY

As at 31 December 2018, amounts owing from/(to) immediate holding company is unsecured. Amounts due from/(to) holding company has credit terms of 30 days.

26 BORROWINGS

	2018 RM'000	2017 RM'000
Term loans and revolving credits (secured)	**1,150,632**	1,205,008
Less: Amount repayable within 12 months	**(555,095)**	(79,103)
Amount repayable after 12 months	**595,537**	1,125,905

The remaining maturities of the borrowings are as follows:

	2018 RM'000	2017 RM'000
Within 1 year	**555,095**	79,103
More than 1 year and less than 2 years	**144,709**	126,268
More than 2 years and less than 5 years	**450,828**	999,637
	1,150,632	1,205,008

26 BORROWINGS (continued)

Detailed below are changes in liabilities arising from financing activities:

	2018 RM'000	2017 RM'000
At 1 January	**1,205,008**	1,416,913
Proceeds from borrowings	**2,145,825**	–
Repayment of borrowings (includes interest paid)	**(2,280,907)**	(144,978)
Non-cash changes:		
• Interest accrued	**43,562**	58,905
• Amortisation of term loan commitment fees	**15,142**	4,541
• Foreign exchange difference upon translation to presentation currency	**22,002**	(130,373)
At 31 December	**1,150,632**	1,205,008

As at 31 December 2018 and 31 December 2017, the Company does not have any unsecured borrowings.

On 23 January 2018, the Company accepted financing facilities consisting a mix of term loan and revolving credit facilities of up to USD430,000,000 or RM1,700,000,000. The term loan will be utilised towards refinancing the Company's existing term loan and also to partially finance its planned capital expenditure. The revolving credit facility will support the Company's working capital needs. The term loan will be repaid in instalments throughout the tenure of the five-year facility.

Details of the new facilities are set out below:

- The term loan principal is repayable every 6 to 12 months until final maturity date in February 2023.
- The revolving credits are short term and will mature within one year from the reporting date.
- Both the term loans and revolving credits are subject to interest at LIBOR + 1.60% per annum.
- The borrowings are secured:
  - by way of a first fixed charge, the refinery assets owned by the Company and the Company's interest in the refinery assets;
  - by way of a first floating charge, the Company's undertaking and all assets, both present and future if and insofar as the charges therein contained shall for any reason be ineffective as fixed charges; and
  - by way of a first fixed charge and assigns and agrees to assign absolutely to the Chargee, free from all liens, charges and other encumbrances, each Bank Account, all the Company's present and future rights, title and interest in and to the Bank Accounts and all amounts (including interest) standing to the credit of the Bank Accounts.

The effective interest rates of the Company's borrowings at the end of the reporting period ranged between 3.37% to 4.29% (2017: 3.79% to 5.29%) per annum.

The fair value of borrowings outstanding as at 31 December 2018 and 31 December 2017 approximated its carrying amount.

27 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The movements in deferred tax during the financial year are as follows:

	2018 RM'000	2017 RM'000
As at 1 January	**(42,042)**	–
(Charged)/credited to profit or loss (Note 10):		
- property, plant and equipment	**(24,856)**	(20,757)
- unrealised foreign exchange	**640**	(775)
- derivative financial assets	**(7,340)**	(668)
- inventories	**(88)**	(22)
- trade receivables	**(311)**	332
- unused tax losses	**54,140**	(29,529)
- other payables and accruals	**(3,800)**	4,785
- derivative financial liabilities	**(942)**	3,000
- unabsorbed capital allowances	**39,428**	–
	56,871	(43,634)
(Charged)/credited to other comprehensive income (Note 23)		
- cash flow hedge reserve and cost of hedging reserve	**(52,295)**	545
Effect of exchange rate changes	**(726)**	1,047
As at 31 December	**(38,192)**	(42,042)
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	**(134,228)**	(106,592)
- unrealised foreign exchange	**(100)**	(732)
- derivative financial assets	**(62,899)**	(839)
	(197,227)	(108,163)
Offsetting	**159,035**	66,121
As at 31 December (after offsetting)	**(38,192)**	(42,042)
Deferred tax assets (before offsetting):		
- unused tax losses	**111,641**	54,981
- inventories	**–**	89
- other payables and accruals	**3,430**	7,184
- derivative financial liabilities	**3,500**	3,553
- trade receivables	**–**	314
- unabsorbed capital allowances	**40,464**	–
	159,035	66,121
Offsetting	**(159,035)**	(66,121)
As at 31 December (after offsetting)	**–**	–

27 DEFERRED TAXATION (continued)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2018 RM'000	2017 RM'000
Deferred tax liabilities:		
- to be settled after more than 12 months	**(37,562)**	(3,730)
- to be settled within 12 months	**(159,665)**	(104,433)
	(197,227)	(108,163)
Deferred tax assets:		
- to be recovered after more than 12 months	**113,164**	–
- to be recovered within 12 months	**45,871**	66,121
	159,035	66,121
Deferred tax liabilities, net	**(38,192)**	(42,042)

The benefits of unutilised tax losses can be carried for seven years based on the Malaysia Income Tax Act. The benefits will be obtained when the Company derives future assessable income of a nature and of an amount sufficient for these carried forward tax losses to be utilised.

28 SIGNIFICANT RELATED PARTIES DISCLOSURES

For the purposes of these financial statements, parties are considered to be related to the Company if the party has the ability, directly or indirectly, to control the Company or exercise significant influence over the Company in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly.

Related parties of the Company comprise of Shandong Hengyuan Petrochemical Group Company Limited and its related companies.

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions. The transactions described below were carried out on agreed terms.

28 SIGNIFICANT RELATED PARTIES DISCLOSURES (continued)

	2018 RM'000	2017 RM'000
Transactions with affiliates of Shandong Hengyuan Petrochemical Company Limited:		
Income		
(i) Sale of refined products	**43,054**	–
Expenses		
(i) Purchase of refined products	**(22,031)**	–
(ii) Central management and administrative charges	**(6,464)**	(7,417)
(iii) Technical advisory charges	**(7,812)**	(7,629)

Key management personnel are the persons who have authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the Board of Directors and senior management personnel of the Company.

	2018 RM'000	2017 RM'000
Compensation for key management personnel:		
- salaries, bonus and allowances	**5,524**	4,898
- fees	**1,974**	928
- defined contribution plan	**162**	270
- benefits in kind	**8**	–

29 CONTINGENT LIABILITIES

The Company is a member of an oil spill fund, namely the International Oil Pollution Compensation ("IOPC") 1992 Fund. The purpose of the Fund is to help compensate parties that suffer financial loss as a result of oil spill from tankers. The members make contributions to the Funds depending on specific global oil spill incidents, which give rise to payments of compensation by the Funds. The contingent liability is unsecured, and as at the date of this report, there are no material claims outstanding.

30 CAPITAL COMMITMENTS

Approved capital expenditure for property, plant and equipment not provided for in the financial statements are as follows:

	2018 RM'000	2017 RM'000
Approved and contracted for	**622,680**	542,382
Approved but not contracted for	**420,238**	204,579

31 SEGMENTAL INFORMATION

The Company is principally engaged in the business of refining and manufacturing of petroleum products in Malaysia, which is a single business segment. The Company's primary operations are also concentrated within Malaysia, hence operating within a single geographical segment. Accordingly, no segmental information is considered necessary for analysis by business or by geographical segments.

This is consistent with the internal management reports reviewed by the Board of Directors (chief operating decision maker of the Company) where performance of the Company is measured based on refining margins and profit before tax recognised as a single business and geographical segment.

32 FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets	2018 RM'000	2017 RM'000
Financial assets designated as hedging instrument		
- Derivative financial assets	**228,011**	3,498
Financial assets measured at fair value through profit or loss		
- Derivative financial assets	**60,280**	–
Loans and receivables at amortised cost		
- Trade receivables	**915,840**	1,081,278
- Amounts due from immediate holding company	**7,745**	–
- Other receivables excluding prepayment and statutory assets	**22,560**	3,582
- Deposit with licensed banks	**–**	310,000
- Bank balances	**204,880**	202,907
	1,151,025	1,597,767
Total	**1,439,316**	1,601,265

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

32 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities	**2018 RM'000**	**2017 RM'000**
Financial liabilities designated as hedging instrument		
- Derivative financial liabilities	**6,573**	5,619
Financial liabilities measured at fair value through profit or loss		
- Derivative financial liabilities	**8,006**	9,193
Other financial liabilities at amortised cost		
- Trade and other payables excluding statutory liabilities	**916,038**	586,705
- Amounts due to immediate holding company	**24,982**	14,200
- Borrowings	**1,150,632**	1,205,008
	2,091,652	1,805,913
Total	**2,106,231**	1,820,725

33 DIVIDENDS

On 27 February 2018, the Directors declared a single-tier interim dividend of RM0.02 per share, amounting to RM6,000,000 in respect of the financial year ended 31 December 2017. The dividend was paid on 17 April 2018 to shareholders registered on the Record of Depositors at the close of business on 20 March 2018. The dividend was accounted for in the financial year ended 31 December 2018.

The Company did not declare any dividend for the financial year ended 31 December 2018.

34 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 29 March 2019.

COMPANY PROPERTIES
AS AT 31 DECEMBER 2018

No	Tenure	Address	Land area (square feet)	Description	Age of properties/ buildings	Date of last evaluation	Land NBV RM'000	Land Improvement NBV RM'000	Building NBV RM'000	Net book value RM'000
1	Freehold	1236 – 1238 GRN 62766 – 62768 87, Jln Resthouse Port Dickson	76,973	A club house and training centre	54 years	01.01.1991	1,077	–	1,865	2,942
2	Freehold	Lot 3 HS(D) 1310 Jln Pantai Port Dickson	6,284,186	Refinery	55 years	01.01.1991	22,194	1,149	39,733	63,076
3	Freehold	Lot 138 GRN 51925 Port Dickson	39,115	Oil Spill Response Centre	54 years	01.01.1991	262	–	314	576
4	Freehold	Lot 798 GM 3203 Kg Arab Port Dickson	49,955	Tank Farm	30 years	01.01.1991	140	–	–	140
5	Freehold	Lot 196 GM 3208 Kg Gelam Port Dickson	242,845	Reserved Land	31 years	01.01.1991	687	–	–	687
6	Freehold	Lot 195 GM 3207 Kg Gelam Port Dickson	249,389	Reserved Land	31 years	01.01.1991	694	–	–	694
7	Freehold	PT 1369 HSD 35655 Port Dickson	1,725,885	Reserved Land, Tank Farm	32 years	01.01.1991	5,666	–	–	5,666
8	Freehold	PT 1370 HSD 35656 Port Dickson	378,384	Reserved Land, TA Office	32 years	01.01.1991	1,242	–	306	1,548
9	Freehold	PT 1371 HSD 35657 Port Dickson	132,030	Reserved Land	32 years	01.01.1991	433	–	–	433
10	Freehold	PT 10747 HSD 35658 Port Dickson	205,558	Reserved Land	32 years	03.09.1991	594	–	–	594
11	Freehold	Lot 12284 & 12290 GM 1961, GM 3201 Port Dickson	112,052	Refinery	23 years	31.08.2000	480	–	–	480
12	Freehold	LoT 596 GRN 244911 Port Dickson	100,826	Tank Farm	23 years	31.08.2000	593	–	–	593
13	Freehold	Lot 5471 – 5494 GM 994 – 1017 Lot 5496 – 5540 GM 1019 – 1063 Port Dickson	188,799	Tank Farm	21 years	31.08.2000	1,259	–	–	1,259
14	Freehold	Lot 950 GM 2721 Port Dickson	104,819	Reserved Land	22 years	31.08.2000	727	–	–	727

COMPANY PROPERTIES
AS AT 31 DECEMBER 2018

No	Tenure	Address	Land area (square feet)	Description	Age of properties/ buildings	Date of last evaluation	Land NBV RM'000	Land Improvement NBV RM'000	Building NBV RM'000	Net book value RM'000
15	Freehold	Lot 12425 – 12456 GRN 146936 –146967 Lot 5441 HSD 4418 Lot 12458 – 12486 GRN 146968 – 146996 Port Dickson	212,544	Tank Farm	22 years	31.08.2000	1,216	–	–	1,216
16	Freehold	Lot 834 GRN 70791 Port Dickson	353,110	Reserved Land	23 years	31.08.2000	1,705	–	–	1,705
17	Freehold	Lot 6674 GM 2774 Port Dickson	97,726	For Pipeline to Jetty	29 years	01.01.1991	585	–	–	585
18	Freehold	Lot 1323 GM 3199 Port Dickson	178,595	For Pipeline to Jetty	29 years	01.01.1991	907	–	–	907
19	Freehold	Lot 6671 GM 2771 Port Dickson	84,249	For Pipeline to Jetty	29 years	01.01.1991	466	–	–	466
20	Freehold	Lot 6672 GM 3195 Kg Gelam Port Dickson	59,395	For Pipeline to Jetty	29 years	01.01.1991	359	–	–	359
21	Freehold	Lot 192 GM 3206 Kg Gelam Port Dickson	148,101	For Pipeline to Jetty	30 years	01.01.1991	443	–	–	443
22	Freehold	Lot 247 GM 3202 Port Dickson	120,330	For Pipeline to Jetty	30 years	01.01.1991	332	–	–	332
23	Freehold	Lot 191 GM 3205 Kg Gelam Port Dickson	134,495	For Pipeline to Jetty	31 years	01.01.1991	620	–	–	620
24	Freehold	Lot 190 GM 3204 Kg Gelam Port Dickson	131,770	For Pipeline to Jetty	31 years	01.01.1991	577	–	–	577
25	Freehold	Lot 909 GRN 69309 Port Dickson	86,768	For Pipeline to Jetty	27 years	01.01.1991	431	–	–	431
26	Freehold	Lots 178 – 180 GM 3196 – 3198 Port Dickson	448,673	For Pipeline to Jetty	27 years	01.01.1991	2,172	–	–	2,172
27	Freehold	Lot 1300 GM 3194 Kg Gelam Port Dickson	58,200	For Pipeline to Jetty	28 years	01.01.1991	403	–	–	403
28	Freehold	Lot 3948 – 3951 GM 2619 – 2622 Port Dickson	5,042	Refinery Buffer Zone	22 years	30.04.2001	344	–	–	344

No	Tenure	Address	Land area (square feet)	Description	Age of properties/ buildings	Date of last evaluation	Land NBV RM'000	Land Improvement NBV RM'000	Building NBV RM'000	Net book value RM'000
29	Freehold	Lot 3974 – 3977 GM 2632 – 2635 Port Dickson	5,042	Refinery Buffer Zone	22 years	30.04.2001	344	–	–	344
30	Freehold	Lot 4961 – 4968 GM 475 – 482 Port Dickson	34,789	Refinery Buffer Zone	22 years	30.04.2001	1,268	–	–	1,268
31	Freehold	Lot 5402 – 5407 GM 345 – 350 Port Dickson	21,883	Refinery Buffer Zone	22 years	30.04.2001	898	–	–	898
32	Freehold	Lot 10533 GM 1653 Kg Gelam Port Dickson	2,002	Refinery Buffer Zone	25 years	31.08.2000	20	–	–	20
33	Freehold	Lot 9196 – 9214 GM 1770 –1788 & Lot 12105 GM 2959 Kg Gelam Port Dickson	40,322	Refinery Buffer Zone	25 years	31.08.2000	398	–	–	398
34	Freehold	Lot 12104 GM 2859 Kg Gelam Port Dickson	570	Refinery Buffer Zone	25 years	31.08.2000	61	–	–	61
35	Freehold	Lot 1312 – 1314 GM 1600 – 1602 Lot 1317 – 1318 GM 1605 – 1606 Port Dickson	49,729	Reserved Land	54 years	01.01.1991	336	–	–	336
36	Freehold	Lot 764 GRN 65945 Port Dickson	9,009	Reserved Land	55 years	01.01.1991	61	–	–	61
37	Freehold	Lot 12086 GM 3200 Port Dickson	62,614	Reserved Land	11 years	28.03.2008	600	–	–	600
38	Freehold	Lot 9060 GM 2720 Port Dickson	9,149	Reserved Land	55 years	01.01.1991	4	–	–	4
39	Leasehold	PT 9451 HSD 29075 Mukim Port Dickson	2,822,620	Jetty Land	26 years	10.04.2004	1,762	–	461	2,223
			15,067,542				**52,360**	**1,149**	**42,679**	**96,188**

Notes:
The above values reflect the original transacted amounts of each property, denominated in RM. These amounts have not been revised to account for the change to USD functional currency effective 1 January 2017.

ANALYSIS OF SHAREHOLDINGS
AS AT 19 MARCH 2019

Issued and Paid-up Capital : RM300,000,000 comprising 300,000,000 ordinary shares

Class of Shares : Ordinary shares

Voting Rights : One vote per ordinary share held

Size of Holdings	No of Holders	%	No of Shares	%
1 – 99	902	5.622	6,179	0.002
100 – 1,000	6,051	37.718	4,328,957	1.443
1,001 – 10,000	7,502	46.762	28,545,251	9.515
10,001 – 100,000	1,428	8.901	39,859,338	13.286
100,001 – 14,999,999 (*)	159	0.991	74,191,273	24.731
15,000,000 and above (**)	1	0.006	153,069,002	51.023
Total	16,043	100.000	300,000,000	100.000

*Remark: *Less than 5% of Issued Shares*
***5% and Above of Issued Shares*

LIST OF TOP 30 SHAREHOLDERS

No	Name	Shareholdings	%
1	RHB Nominees (Tempatan) Sdn Bhd Malaysia Hengyuan International Limited	153,069,002	51.023
2	Kam Loong Mining Sdn Bhd	5,580,000	1.860
3	AMANAHRAYA Trustees Berhad Amanah Saham Bumiputera	5,576,700	1.859
4	Foo Khen Ling	5,300,000	1.767
5	Tan Kah Hock	3,211,000	1.070
6	Goh Ching Mun	2,092,300	0.697
7	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank For Deva Dassan Solomon (My1091)	1,685,100	0.562
8	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Helina Shanti Solomon (7001761)	1,465,000	0.488
9	HSBC Nominees (Asing) Sdn Bhd JPMCB NA For New York State Common Retirement Fund	1,334,600	0.445
10	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For Manulife Investment Progress Fund (4082)	1,285,500	0.429
11	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Inbamanay A/P M J Arumanayagam (8061712)	1,217,500	0.406
12	DB (Malaysia) Nominee (Asing) Sdn Bhd SSBT Fund Tct9 For California State Teachers Retirement System	1,205,000	0.402

LIST OF TOP 30 SHAREHOLDERS (continued)

No	Name	Shareholdings	%
13	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	1,194,847	0.398
14	Citigroup Nominees (Asing) Sdn Bhd CBNY For Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	1,077,200	0.359
15	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Deva Dassan Solomon (8041850)	1,074,700	0.358
16	Wong Siew Fah	910,000	0.303
17	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For Manulife Insurance Berhad (Equity Fund)	909,000	0.303
18	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For John Devaraj Solomon (8103033)	851,000	0.284
19	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Selina Sharmalar Solomon (8112136)	842,000	0.281
20	Kam Loong Credit Sdn Bhd	802,000	0.267
21	Eletechnics Sdn Bhd	800,000	0.267
22	Malaysia Nominees (Tempatan) Sendirian Berhad Lee Foundation, States Of Malaya (00-00197-000)	790,000	0.263
23	Citigroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Deva Dassan Solomon (473163)	784,300	0.261
24	UOB Kay Hian Nominees (Asing) Sdn Bhd Exempt An For UOB Kay Hian Pte Ltd (A/C Clients)	764,850	0.255
25	Law King Yong	764,000	0.255
26	Soon Hock Teong	750,000	0.250
27	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Deva Dassan Solomon	724,400	0.242
28	Reuben Tan Cherh Chung	700,000	0.233
29	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Inbamanay A/P M J Arumanayagam	679,200	0.226
30	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ong Saut Mee	660,400	0.220
	Total	198,099,599	66.033

ANALYSIS OF SHAREHOLDINGS
AS AT 19 MARCH 2019

SUBSTANTIAL SHAREHOLDERS HOLDINGS

No	Name	Investor ID	Shareholdings	%
1	RHB Nominees (Tempatan) Sdn Bhd Malaysia Hengyuan International Limited	259064V	153,069,002	51.023
	Total		**153,069,002**	**51.023**

DIRECTORS' AND CHIEF EXECUTIVE'S SHAREHOLDINGS

No	Name	Total Shareholdings	Percentage (%)
1	Wang YouDe	0	0.00
2	Wang ZongQuan	0	0.00
3	Alan Hamzah Sendut	0	0.00
4	Fauziah Hisham	0	0.00
5	Liang Kok Siang	0	0.00
6	Surinderdeep Singh Mohindar Singh	0	0.00
7	David Ronald Keat	0	0.00
	Total	**0**	**0.00**

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

DIRECTORS' MEETING ATTENDANCE FOR THE FINANCIAL YEAR ENDED 2018

The following information sets out the attendance of each director at general meetings, board meetings and board committee meetings of the Company held in the year 2018.

BOARD AND GENERAL MEETINGS

Name of Members	Board Meeting Attendance	General Meeting Attendance
Wang YouDe	6/6	2/2
Wang ZongQuan	6/6	2/2
Lim Tau Kien (a)	6/6	2/2
Alan Hamzah Sendut	6/6	2/2
Fauziah Hisham	4/6	2/2
Liang Kok Siang	6/6	2/2
Surinderdeep Singh Mohindar Singh (b)	–	–

Total number of Board meetings in 2018: 6

Total number of general meetings: 2

(a) Lim Tau Kien resigned from the Board of Directors with effect from 22 February 2019.

(b) Surinderdeep Singh Mohindar Singh was appointed as an independent non-executive director of HRC with effect from 23 February 2019.

BOARD AUDIT COMMITTEE MEETING

Name of Members	Attendance
Alan Hamzah Sendut (Chair)	5/5
Lim Tau Kien (a)	5/5
Fauziah Hisham	5/5
Liang Kok Siang	5/5
Surinderdeep Singh Mohindar Singh (b)	–

Total number of Board Audit Committee meetings in 2018: 5

(a) Lim Tau Kien resigned from the Board Audit Committee with effect from 22 February 2019.

(b) Surinderdeep Singh Mohindar Singh was appointed as a member of the Board Audit Committee with effect from 23 February 2019.

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

BOARD NOMINATING AND REMUNERATION COMMITTEE MEETING

Name of Members	Attendance
Lim Tau Kien [(a)] (Chair)	6/6
Wang YouDe	6/6
Fauziah Hisham	6/6
Surinderdeep Singh Mohindar Singh (Chair) [(b)]	–

Total number of Board Nominating and Remuneration Committee meetings in 2018: 6

(a) Lim Tau Kien resigned from the Board Nominating and Remuneration Committee with effect from 22 February 2019.

(b) Surinderdeep Singh Mohindar Singh was appointed as Chair of the Board Nominating and Remuneration Committee with effect from 23 February 2019.

BOARD RISK MANAGEMENT COMMITTEE MEETING

Name of Members	Attendance
Wang ZongQuan (Chair)	4/4
Alan Hamzah Sendut	4/4
Liang Kok Siang	4/4

Total number of Board Risk Management Committee meetings in 2018: 4

BOARD PROJECTS REVIEW COMMITTEE MEETING

Name of Members	Attendance
Wang YouDe (Chair)	12/12
Wang ZongQuan	12/12
Lim Tau Kien [(a)]	12/12
Surinderdeep Singh Mohindar Singh [(b)]	–

Total number of Board Projects Review Committee meetings in 2018: 12

(a) Lim Tau Kien resigned from the Board Projects Review Committee with effect from 22 February 2019.

(b) Surinderdeep Singh Mohindar Singh was appointed as a member of the Board Projects Review Committee with effect from 23 February 2019.

BOARD TENDER COMMITTEE MEETING

BTC was established on 27 February 2018 and held its first meeting on 31 July 2018.

Name of Members	Attendance
Wang YouDe (Chair)	4/4
Wang ZongQuan	4/4
Alan Hamzah Sendut (b)	3/4
Liang Kok Siang (b)	3/4
Lim Tau Kien (a)	1/4
Fauziah Hisham (a)	1/4

Total number of Board Tender Committee meetings in 2018: 4

(a) Lim Tau Kien and Fauziah Hisham resigned as members of the Board Tender Committee with effect from 1 September 2018.

(b) Alan Hamzah Sendut and Liang Kok Siang joined the Board Tender Committee with effect from 1 September 2018.

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

DIRECTORS' TRAINING

A summary of the in-house continuing education programmes and external trainings attended by the Directors of HRC for the financial year ended 2018 are set out below:

1 January 2018 to 31 March 2018	• Cyber Security: Cyber Proofing for the Next Wave, organised by Securities Industry Development Corporation (SIDC) • Cyber Security Insights and Sharing, organised by Hong Leong Bank Berhad and Hong Leong Islamic Bank Berhad (HLISB) • Cryptocurrency, Blockchain & Beyond: A Cautionary Tale, organised SIDC
1 April 2018 to 30 June 2018	• Workshop – Role and Functions of Board, Board Governance in Group Setting, organised by UEM Group Berhad • Briefing on Malaysian Financial Reporting Standards 17 (MFRS 17), organised by Hong Leong Group • Digital Transformation and Impact to Businesses, organised by Hong Leong Group • An Insider & Global Perspectives, organised by Islamic Banking in the 4^{th} Industry Revolution, Compliance, Digital Innovation, Profitability and the Way Forward • Digital Transformation and Impact to Businesses, organised by Hong Leong Financial Group • Artificial Intelligence & Technology Development Leadership Programme, organised by INSEAD
1 July 2018 to 30 September 2018	• Accelerate Workshop Series: "Resolving Conflict in the Boardroom", organised by The ICLIF Leadership and Governance Centre (ICLIF) • Corporate Liability Provision 2018 – Malaysian Anti-Corruption Commission (MACC) Amendment Act 2018, organised by Aram Global • Roles and Responsibility of Directors, Board and Board Committees Under the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (MMLR) and Malaysia Code on Corporate Governance and Corporate Disclosure Policy under the MMLR, organised by Hengyuan Refining Company Berhad • Adequate Procedures for Corporate Liabilities of MACC Amendment Act 2018, organised by UEM Group Berhad • Anti-Money Laundering / Counter Financing of Terrorism – Banking Sector, organised by ICLIF • Introduction to Corporate Liability Provision: What it is, how will my Company be affected, and what do I need to put in place by way of safeguards, organised by Malaysian Institute of Corporate Governance

1 October 2018 to 31 December 2018	• Presentation by the President and CEO, Institute of Corporate Directors Malaysia, organised by Institute of Corporate Directors Malaysia • Power talk: will the Business Judgement Rule help directors sleep better at night, organised by Institute of Corporate Directors Malaysia • Emerging Risks, the Future Board, and the Return on Compliance, organised by ICLIF • Insight on Value-Based Intermediation (HLISB Leadership Programme for Board of Directors & Shariah Committee), organised by Hong Leong Islamic Bank Berhad • Corporate Liability - MACC Amendment Act 2018, organised by Hengyuan Refining Company Berhad • DNA of a Board Leader, organised by Financial Institutions Directors' Education FORUM (FIDE) Forum • Compliance Training Program for Board Members & Senior Management, organised by Maybank Compliance

MATERIAL CONTRACTS

There were no material contracts entered into by HRC involving the interests of Directors, the CEO and the major shareholders either still subsisting at the end of the financial year ended 31 December 2018 or entered into since the end of the previous financial year.

DISCLOSURE OF RECURRENT RELATED PARTY TRANSACTIONS

In compliance with paragraph 10.09(2)(b) of the Listing Requirements, the Company had obtained a mandate from its shareholders to enter into recurrent related party transactions of a revenue or trading nature with its related parties (RRPT Mandate) at the Annual General Meeting and Extraordinary General Meeting held on 24 May 2018. The RRPT Mandate will expire at the conclusion of the forthcoming Annual General Meeting.

The details of the recurrent related party transactions entered into pursuant to the RRPT Mandate in the financial year ended 2018 are set out below.

Related Party		Type of Transaction	Value from 1 January 2018 to 24 May 2018 (RM)	Value from 25 May 2018 to 31 December 2018 (RM)	Total of Actual Transactions FYE 2018 (RM)
1.	Shandong Hengyuan Petrochemical Company Limited	Sale of petroleum products by HRC	0	0	0
		Purchase of petroleum products by HRC	0	0	0
2.	Malaysia Hengyuan International Limited	Provision of central management, business support and administrative services to HRC	1,500,000	4,964,450	6,464,450
		Provision of technical advisory and consultancy services and research and development advisory services to HRC	1,977,066	5,834,941	7,812,007
		Sale of petroleum products by HRC	0	43,054,000	43,054,000
		Purchase of crude oil by HRC Purchase of Petroleum Products by HRC Provision of oil and oil products price risk management services to HRC	0	23,031,000	23,031,000

ACRONYMS & ABBREVIATION

AAPG	Audit and Assurance Practice Guide
ABC	Anti-bribery and corruption
AGM	Annual General Meeting
AIA	Asset Integrity Assessment
AML	Anti-Money Laundering
APCS	Air Pollution Control System
API	American Petroleum Institute
BAC	Board Audit Committee
bbl	Barrel
BNRC	Board Nomination and Remuneration Committee
BPRC	Board Projects Review Committee
BRMC	Board Risk Management Committee
BTC	Board Tender Committee
CAR	Clean Air Regulation
CCS	Current Cost of Stock
CO_2	Carbon Dioxide
DOE	Department of Environment
DOSH	Department of Occupational Safety & Health
EES	Economic Environment Society
EHS	Environmental, Health and Social
EII	Energy Intensity Index
EPCC	Engineering Procurement Construction and Commissioning
ETP	Effluent Treatment Plant
EVP	Employee Value Proposition
FAC	First Aid Case
FIFO	First In First Out
FiRM	Fire, Rescue and Medical Team
GHG	Greenhouse Gas
GWP	Global Warming Potential
HGBP	Hengyuan General Business Principles
HLISB	Hong Leong Investment Sdn Bhd
HR	Human Resources
HRC	Hengyuan Refining Company Bhd
HSE	Health, Safety and Environment
HSSE&SP	Health, Safety, Security, Environment and Social Performance
IAD	Internal Audit Department
IESBA	International Ethics Standards Board for Accountants'
ISMS	Information Security Management System
ISO	International Standards Organisation
JKKK	Jawatankuasa Kemajuan dan Keselamatan Kampung (Village Development and Security Committee)
KPIs	Key Performance Indicators
LFI	Learning from Incident
LLI	Long Lead Item
LPG	Liquefied Petroleum Gas
LRCCU	Long-Residue Catalytic Cracking Unit
LTI	Lost-Time Injury
MACC	Malaysian Anti-Corruption Commission
MAICSA	The Malaysian Institute of Chartered Secretaries and Administrators
MCCG	Malaysia Code of Corporate Governance
MHIL	Malaysia Hengyuan International Limited
MOC	Management of Change
MPPD	Majlis Perbandaran Port Dickson (Port Dickson Municipal Council)
MT	Metric Tonne
MTA	Major Turnaround
MWQS	Marine Water Quality Standards
NC	Non-Conformance
NMPI	Near Miss and Potential Incident
NO_x	Nitrogen Oxides
OHSAS	Organisational Health and Safety Assurance Standard
POA	Product Offtake Agreement
PQ	Product Quality
PQI	Product Quality Incident
PS9F	Process Safety 9 Fundamentals
PSE	Process Safety Event
PTIE	Proactive Threats Identification Elimination
PwC	PricewaterhouseCoopers
QHSSE	Quality, Health, Safety, Security and Environment
RM	Ringgit Malaysia
RRPT	Recurrent Related Party Transaction
SCE	Safety Critical Equipment
SD	Shut Down
SIA	Site Internal Assurance
SIDC	Securities Industry Development Corporation
SO_x	Sulphur Oxides
SSI	Special Scheme Inspection
SU	Start Up
TOR	Terms of Reference
TRCF	Total Recordable Case Frequency
UPDT	Unplanned Down Time
USD	United States Dollar
VIU	Value in Use
WGC	Wet Gas Compressor

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PROXY FORM

Hengyuan Refining Company Berhad
(No. 3926-U)

CDS Account No of authorised nominee	No of shares held

I / We ____
(Full name in block letters)

NRIC / Passport No____

of ____
(Address in full)

being a member of Hengyuan Refining Company Berhad, do hereby appoint______________________________
(Full name in block letters)

______________________________ NRIC / Passport No______________________________

of ____
(Address in full)

or failing him / her,____
(Full name in block letters)

NRIC / Passport No______________________________of______________________________
(Address in full)

____

or failing him/her, the Chairman of the Meeting as my / our proxy to vote for me / us on my / our behalf at the Sixtieth Annual General Meeting of Hengyuan Refining Company Berhad ("the Company") to be held at **Nexus Ballrooms 1 & 2, Level 3A, Connexion Conference & Event Centre, Bangsar South City, No 8, Jalan Kerinchi, 59200 Kuala Lumpur on Tuesday, 28 May 2019** at **10.00 am** and at any adjournment thereof.

Resolutions	For	Against
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		
Ordinary Resolution 4		
Ordinary Resolution 5		
Ordinary Resolution 6		
Ordinary Resolution 7		
Ordinary Resolution 8		
Special Resolution 1		

Please indicate with an "x" in the spaces provided how you wish your vote to be cast. If no instruction as to voting is given, the Proxy will vote as he or she thinks fit, or abstain from voting at his or her discretion.

Dated this ________________ day of _______________ 2019

____
Signature / Common Seal of Shareholder(s)

Contact No______________________________

For appointment of two proxies, percentage of shareholdings to be represented by the proxies:

	No of Shares	Percentage
Proxy 1		%
Proxy 2		%
Total		**100%**

NOTES:-

1. Pursuant to 334 of the Companies Act 2016, a member of a company shall be entitled to appoint another person as his / her proxy to exercise all or any of his / her rights to attend, participate, speak and vote at a meeting of members of the company. 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.

2. Where a member of the Company is an exempt authorised nominee which holds ordinary shares in the Company for multiple beneficial owners in one securities account (Omnibus Account), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each Omnibus Account it holds.

3. 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.

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

5. 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.

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

7. The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or notarised must be deposited at the Company's Share Registrar's Office situated at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur or its Customer Service Centre at Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur not less than forty-eight (48) hours before the time for holding the meeting or adjourned meeting.

8. Only an **originally signed** proxy form deposited at Tricor Investor & Issuing House Services Sdn Bhd, will entitle the proxy holder to attend and vote at the meeting. **Photocopies of signed proxy forms will not be accepted** for the purposes of the meeting. Additional proxy forms are available to members upon request in writing to the Company.

9. The Date of Record of Depositors for the purpose of determining members' entitlement to attend, vote and speak at the Meeting is 17 May 2019.

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