

SUSTAINABILITY STATEMENT

HRC leverages on a strong business foundation based on health, safety, security and environmental excellence, product quality stewardship and a high performance workforce to enhance its reputation and grow its business. This has enabled us to deliver good financial performance and sustain growth, while minimising the impact to the environment and successfully balancing the interests of our various stakeholders. We have set in place robust structures and processes to ensure that our operations support sustained growth and business performance to best meet the interests of our stakeholders.

We manage sustainability issues under the following areas:

- Marketplace
- Responsible Operations
- Environment
- Our People
- Society





MARKETPLACE

HRC firmly believes in the fundamental importance of the promotion of trust, openness, teamwork and professionalism, which are reflected in our Company's principles and our core values. We have developed and cultivated a strong corporate culture that embeds good corporate governance, business ethics and integrity, operational excellence and excellent product stewardship.

Our Company is committed to the highest standards of integrity, transparency and accountability in the conduct of its businesses and operations. As such, HRC's General Business Principles (GBP) and Code of Conduct (Code) set the framework and establish the ethical standards by which we operate, covering the areas of: human rights, whistleblowing, anti-bribery and corruption, conflicts of interests, anti-money laundering, anti-trust, political activities, and compliance.

HRC has set in place measures to address the continuity of the business, Human Capital (HC) management, Quality, Health Safety, Security and Environment (QHSE), commercial aspects as well as project and business risks. These strategies enabled the Company to improve drastically its performance, with an almost three-fold increase in profit after tax compared to last year. These results augur well for the future of the Company, and we will continue looking for opportunities to maximise margins, optimise our costs and minimise the operational and financial risks for the Company.

We have remained committed towards engaging with stakeholders in a timely, clear and transparent manner. This engagement has enabled us to build long-term relationships based on trust and confidence, and gain positive support and buy-in. We will continue to nurture these relationships.

Product Quality (PQ) is critical to our Company's performance and reputation. As such, the quality of our products is systematically verified along the production chain, and PQ audits are conducted regularly to achieve PQ excellence, whether in execution of timely deliveries or meeting product quality specifications.

We promote transparent and fair supply chain management through supplier selection, specification design, bid evaluation, contract award and supplier performance review. We prioritise local suppliers and apply systematic competitive bidding before awarding contracts. This has enabled us to procure quality products and services at competitive prices.

We have been exploring new avenues to supply our products in order to strengthen our customer base and secure new markets for our products and will continue to do so in the future. Regular evaluation of our customer satisfaction through a yearly survey have shown a continuous improvement in overall customer satisfaction across reliability, responsiveness, communication and cost since 2013.



SAFE & RESPONSIBLE OPERATIONS

As QHSSE remain a strong focus of the Company's Management Team, we doubled the budget allocated to QHSSE to support development and training, programmes and campaigns, environmental monitoring and emergency response. In 2017, HRC conducted 79 safety and emergency response trainings, representing a total of 587 hours and involving 979 participants.

As for reliability, our Proactive Threats Identification and Elimination (PTIE) and Asset Integrity Assessment (AIA) processes have enabled us to identify the maintenance and upgrade projects required to ensure continuous availability and operability of equipment. These actions, combined with our 'Reliability Mindset', underpin the positive strides the Company has made towards enhancing the plant's reliability; we managed to achieve an unplanned downtime (UPDT) of 2.3% in 2017, a great improvement compared to the UPDT of 7.2% observed in 2016; we continue to focus on asset integrity to ensure a unit does not fail prematurely.

In the area of personal safety, our strong safety culture is anchored on initiatives such as Goal Zero, the 12 Life-Saving Rules and the 'Chronic Unease Mindset'. We take pride in having achieved a zero-fatality track record over the past 25 years and two (2) million man-hours without Lost Time Injury (LTI) on 30 December 2017. Despite our efforts to ensure that our workforce operates in a safe environment, we still recorded personal safety incidents and first aid cases. These cases highlight a need to continue our safety initiatives for our employees and contractors, which included initiatives such as 'Take 5 for safety', situational awareness and the risk identification campaigns in 2017. Our Learning from Incident (LFI) sessions decreased by approximately 50% compared to 2016, indicating that we had a lower number of significant incidents that required investigation and learning, which is encouraging and demonstrates the effectiveness of our continuous efforts towards Goal Zero.

SUSTAINABILITY STATEMENT

ANCHORED ON RESPONSIBILITY

We continued our actions under the 'Process Safety to the Next Level' initiative, which covers programmes such as 'The 8 Key Steps', 'Keep It in the Pipe' and '9 Fundamentals of Process Safety'. Our process safety performance remains comparable to 2016, with one (1) Process safety incident in 2017.

Emergency preparedness and response, which is a key component to process safety, helps us to prevent incidents and respond effectively to any emergency that may occur and may put people, the environment and our assets at risk. The joint exercises and drills performed in collaboration with the Fire & Rescue Department, Petroleum Industry of Malaysia Mutual Aid Group (PIMMAG) and the Port Dickson Mutual Aid Group helped us to update and strengthen the site's 'Oil Spill Response Plan' and 'Emergency Response Plan'.



HRC in-house firefighting team conducting a fire drill.



ENVIRONMENT

HRC is committed to protect the environment and minimise the environmental impacts of its operations, products and services. As such, we fully comply with local environmental legislations and other related international conventions and protocols and follow stringent environmental standards inherited from our previous operator.

HRC is proud to have been awarded the Hibiscus Award for EXCEPTIONAL ACHIEVEMENT in Environmental Performance category in 2017, in recognition of our efforts towards environmental management.

All our emissions and effluent discharges are managed in accordance with the Company's Health, Safety, Security, Environment and Social Performance (HSSE & SP) Commitment and Policy, and we strive for continuous improvements of our operations with respect to the environment.

In 2017, our energy efficiency performance was the best in the past five (5) years with an Energy Intensity Index (EII) of 111.5, supported by the more efficient operation of the refinery and the implementation of several energy improvement tactics.

The total waste generated increased by 15.6% compared to 2016, still below the average 6,562 tonnes of waste generated over the past five (5) years. The waste generation rate (waste by million barrel) nevertheless constitutes a substantial improvement compared to 2012 with 164.3 tonnes/mln bbl in 2017. We set up a new contract directly with a cement company towards the 4th quarter of 2017 to supply them with all spent catalysts from the catalytic cracking process to be re-used as raw feedstock.

The results from the monitoring of HRC's treated effluent and sea water quality monitoring, which are reported to the Department of Environment (DOE) on a quarterly basis, showed full compliance with the applicable legislations. Over the years, we managed to achieve a yearly reduction of our oil in water concentration by 11.1% on the average since 2012, with a total reduction of 53.4% percent in 2017 as compared to 2012 levels.

Our greenhouse gas (GHG) emissions increased by 7% as compared to 2016. However, our GHG emissions per million barrel produced showed a 2.9% improvement in carbon efficiency since 2016.

Our SO_x emissions decreased by 19.9% compared to the baseline year 2007, and by 7.5% compared to 2016 while our SO_x emissions per million barrel produced improved by 12.6% compared to 2016.

Our NO_x emissions increased by 9.7% compared to the baseline year 2007 and by 4.8% compared to 2016, mostly resulting from the overall refinery throughput and use of fuel oil for refinery heating. However, our NO_x emissions per million barrel produced showed 1.0% improvement in NO_x efficiency compared to 2016.

We recorded three (3) environmental incidents in 2017, all of which have been promptly closed out.



Our People

We endeavour to attract, retain and nurture the best people by investing in their professional development and providing them with challenging and rewarding opportunities for personal and professional growth. Our Integrated People Plan (IPP), which was developed in 2015, improves our employee value proposition and integrates people development and organisational health as components of our business performance.

Our human capital grew substantively by 18.2% compared to 2016, following the hiring of employees mainly to endorse responsibilities in supporting service areas such as finance, contract and procurement and human resources. We expect our workforce to continue to increase, especially in engineering and technical positions, as a result of our growing operations and anticipated retirement of some of our employees.

HRC strives to provide a conducive work environment for all its employees and contract workers by promoting diversity and equal opportunities, offering benefits and salaries on par with market practices, maintaining open and transparent relationships with unions, and recognising outstanding employees and inspiring others through the weekly Pride Moments.

Our Talent Management provides our employees with the opportunity to acquire and enhance new skills, as well as offering them, where possible, career development opportunities that will help them fulfil their full potential within our company. Several programmes have been set in place to inspire and develop employees at different times of their careers: HRC Graduate programme, Internship Programme, Onboarding Programme and Leadership and training programmes. In 2017, a total of 5,488 hours of training were provided to 338 employees, representing an average of 16 hours of training per employee.

We launched in November 2017 the 'Be Well!' campaign, which empowers employees and direct contractors to manage their health through tournaments and sport activities. Other employee engagement activities include: our 'Energizer' events, which cultivates teamwork and personal development, festive celebrations, charity events, sports events and the HR Open Day.



Project planning meeting.



CARING FOR OUR COMMUNITIES

As part of our corporate social responsibility (CSR), we maintain a high level of social and community investments through our outreach programmes that we spearhead in partnership with the Port Dickson Residents Association, local communities and schools within our vicinity. Our CSR programmes are aligned with community and business priorities along the following pillars:

- Social
- Environment
- Safety
- Education

In 2017, our social investment included: Kampung Paya Gotong Royong, 'Go Green' Campaign, Hari Alam Sekitar, firefighting briefing and demonstration and emergency drills in a local school, Buka Puasa with Yayasan Anak Yatim Negeri Sembilan, food ration distribution and Sponsorship to Academic Excellence Award in Kampung Gelam.

We will continue our journey to achieve the sustainable success of the Company by leveraging on our skilled and passionate human capital, pursuing product excellence, and continually improving our high QHSSE standards.

Detailed information regarding our sustainability governance, management, performance and initiatives are available in HRC's Sustainability Report 2017, which is available on our website.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

Hengyuan Refining Company Berhad (HRC) is committed to upholding and practising good corporate governance and supports the recommendations made by the Malaysian Code on Corporate Governance 2017 (MCCG 2017).

The Board of Directors (Board) is pleased to set out HRC's Corporate Governance Overview Statement, which is to be read together with the Corporate Governance Report (CG Report) published on HRC's website at hrc.com.my. The CG Report sets out HRC's application of each practice recommended by MCCG 2017 for the current financial year.

PRINCIPLE A: BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The Board holds the overall responsibility of representing, promoting and protecting the interests of HRC and its stakeholders, determining the direction of HRC and monitoring HRC performance.

Following the change in major shareholder on 22 December 2016, the Board spent the year re-assessing its functions and effectiveness and made improvements to its structure.

The Board is currently supported by five (5) Board Committees which assist the Board in discharging its fiduciary and leadership roles. In summary, roles and responsibilities of these Board Committees are as follows:

- (a) **The Board Audit Committee (BAC)** oversees HRC's operations by reviewing the Company's processes of producing financial reports and its internal controls, policies and procedures;
- (b) **The Board Nominating and Remuneration Committee (BNRC)** reviews and recommends to the Board the appointments of directors, oversees the annual Board effectiveness assessments, evaluates the appointment, performance and termination of key senior Management positions, considers remuneration frameworks and policies for Directors and key senior Management and ensures that the succession planning and talent management framework for key roles are in place;
- (c) **The Board Risk Management Committee (BRMC)** oversees risk management functions and policies of HRC and reviews the efficacy of risk management. The BRMC was established on 29 November 2017;
- (d) **The Board Projects Review Committee (BPRC)** provides oversight and direction for the execution and delivery of major projects. The BPRC was set up on 30 November 2017; and
- (e) **The Board Tender Committee (BTC)** assists with the oversight of contracting and procurement policies and practices of HRC. The BTC was established on 27 February 2018.

An overview of the Board's governance structure is set out below.



The board charter of HRC (Board Charter) and the terms of reference of the BAC, BNRC and BRMC have been updated to ensure its compliance with MCCG 2017, Main Market Listing Requirements of Bursa Malaysia Securities Berhad (Listing Requirements) and Companies Act 2016, and can be found on HRC's website.

The positions of Chairman of the Board and Chief Executive Officer (CEO) of HRC are held by different individuals with separate roles and responsibilities. The CEO is not a member of the Board.

The Chairman of the Board exemplifies good leadership by managing the decision-making process of the Board. This includes setting the meeting agenda, ensuring that Directors have sufficient information for their respective Board meetings, conducting pre-Board meeting briefings with Management, encouraging discussions amongst Directors and setting the strategic priorities of HRC.

The Board is further supported by two (2) qualified company secretaries who are members of The Malaysian Institute of Chartered Secretaries and Administrators (MAICSA). The company secretaries' responsibilities include advising the Board on its role and responsibilities, attending Board and Board Committee meetings, ensuring that meeting minutes are recorded timely and accurately, and updating the Board on changes to laws, regulations and guidelines that affect or may affect the Company.

HRC's Directors and employees adopt a code of conduct which addresses situations such as conflicts of interests, corruption and bribery, harassment, breach of laws and unprofessional behaviour. HRC's whistleblower policy was updated and relaunched during its Business Integrity Week held between 22-25 January 2018 and contains information on the procedures for reporting and the reporting channel. The code of conduct and whistleblower policy can be found on HRC's website.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

II. Board Composition

The composition of the Board and appointment of Directors are overseen by the BNRC.

The BNRC consists of a majority of independent non-executive directors and is chaired by Lim Tau Kien, the Senior Independent Non-Executive Director of HRC. Details of the BNRC members and their attendance at BNRC committee meetings are set out on page 132 of the Annual Report.

The BNRC reviews the composition of the Board based on diversities of skills, experience, gender, nationality, age, culture, socio-economic background, independence and the core competencies required.

The variety of skills and experiences of Board members are illustrated in the chart below.

Skills & Experience	No. of Directors
Oil & Gas Industry & Strategy	5
Health, Safety, Security and Environment (HSSE)	4
Corporate Governance	5
Regulatory Compliance / Legal	5
Internal Controls / Risk Management / Audit	5
Contracting and Procurement	4
Supply / Marketing / Sales	4
Human Resource & Development	5

In considering candidates for appointment to the Board, the Board utilises independent sources to identify suitably qualified candidates and considers factors such as time commitment, character, professionalism and integrity, technical skills and number of directorships outside HRC.

In line with the Board Charter, four (4) out of six (6) members of the Board are independent non-executive directors and 33% of its members are women. The Board continues to strive to achieve its diversity targets wherever possible.

The BNRC also reviews the appointment of senior Management of the Company. On 27 February 2018, the Board, on BNRC's recommendation, appointed David Keat as the CEO of HRC with effect from 1 March 2018, based on the suitability of his skill and experience.

The Board has a policy which limits the tenure of independent directors to a term of nine (9) years. HRC is required to obtain shareholders' approval if the Board wishes to retain an independent director beyond nine (9) years.

The BNRC conducted the annual Board Effectiveness Assessment for the year 2017 (BEA 2017) through self and peer reviews. The assessment included the evaluation of each Director in the areas of contribution to interaction, quality of input, skill sets, understanding of role, commitment and character. The Directors also assessed the overall performance of the Board in terms of structure and composition, Board operations and interactions, strategy planning, performance, roles and responsibilities, risk management and internal control and mix of skills and experience.

Overall, the Board is satisfied with its structure and composition, general roles and responsibilities, skills and experiences of directors, strategy planning, performance and risk management and internal controls but would like to see improvements in areas such as human capital management.

Further, the assessment of the BAC and BNRC in BEA 2017 showed that Board members are satisfied with the overall effectiveness of their respective Board Committees.

The Board continuously assesses the training needs of its members and is responsible for ensuring that Directors attend trainings and continuing education programmes. The Board Charter of HRC also provides that it is the responsibility of each Director to keep abreast of regulatory changes, other developments and broad business trends and devote time to attend training programmes and briefings.

A list of trainings attended by the Directors in 2017 are set out on page 134 of the Annual Report.

III. Board Remuneration

The BNRC is responsible for the review of the remuneration framework of Directors and employees of HRC.

HRC has been disclosing the remuneration breakdown of the individual Directors, including fees, salary, bonus, benefits in-kind and other emoluments since 2004.

The Board's remuneration is determined based on factors such as comparison of amounts paid by similar companies, the time and effort involved, meeting frequencies and allowances for travel and continuing education programmes.

The Directors' remuneration breakdown for the financial year ended 2017 is set out on page 135 of the Annual Report.

HRC has a remuneration and benefits policy for all employees, including senior Management.

HRC has also engaged an independent external advisor, who is currently evaluating the organisational structure of HRC. Pending the results of the assessment, the Board has decided not to publish the remuneration policy of HRC on its website.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Board Audit Committee

The BAC comprises of four (4) independent non-executive directors and is chaired by Alan Hamzah Sendut.

BAC members possess a variety of skills and experience including accounting, strategy and corporate finance. Two (2) of the BAC members, Alan Hamzah Sendut and Lim Tau Kien, are chartered accountants who fulfil the accounting qualifications required by the Listing Requirements.

The main duties of the BAC include overseeing financial reporting, internal controls, assessing the suitability of external auditors and related party transactions.

BAC members are also expected to undertake continuous professional development to keep abreast of relevant developments in accounting and auditing standards, practices and rules.

The terms of reference of the BAC also provides that a former key audit partner of the external auditors shall be subject to a minimum two (2) year cooling-off period before being considered for appointment to the BAC.

The BAC's report can be found on page 59 of the Annual Report.

II. Risk Management and Internal Control Framework

HRC's risk management and internal control function is monitored by the BRMC, which was set up on 29 November 2017 pursuant to recommendations of MCCG 2017. The BRMC is chaired by Wang ZongQuan, Deputy Chairman of HRC, who has 14 years of operational experience in refining and petrochemical businesses.

Prior to the establishment of the BRMC, the risk management and internal control functions were overseen by the BAC.

The BAC has the responsibility of ensuring that proper internal controls are implemented to enhance the independence of both the external and internal audit functions. The BAC has conducted a high level review of HRC's Internal Audit Department (IAD) and is satisfied with the independence of the Chief Internal Auditor. The IAD governs itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework.

The Board's statement on risk management and internal control of HRC is set out on page 63 of the Annual Report.

CORPORATE GOVERNANCE OVERVIEW STATEMENT

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

I. Communication with Stakeholders

HRC continuously strives to improve its relationship and communication with stakeholders to facilitate a mutual understanding of each other's objectives and expectations.

HRC Corporate Affairs Department is the main point of contact for all investors and shareholders. Contact details, including e-mail address and telephone number, of the Corporate Affairs Department are published on HRC's website.

The website also includes relevant information on HRC, such as an introduction to the Board and Management, HRC's operations and products, daily share price, annual reports and sustainability efforts. Announcements submitted to Bursa Malaysia Securities Berhad are uploaded promptly.

HRC engages with the Minority Shareholders Watchdog Group prior to the annual general meeting and ensures that their questions, as well as the questions posed by other shareholders, are addressed during the annual general meeting.

HRC engages its employees regularly through both formal and informal events and dialogues. Similarly, HRC continuously connects with its customers, business partners, regulators, government bodies and suppliers during major project launches, periodical briefings and festive celebrations. HRC is also committed to local community engagement and has conducted several CSR events in 2017, as set out on page 53 of the Annual Report.

II. Conduct of General Meetings

HRC's Board Charter was updated on 27 February 2018 to incorporate the Board's responsibility to ensure that shareholders receive at least 28 days' notice to attend the Company's annual general meetings. All directors and Chairs of the respective Board Committees are required to attend general meetings of the Company.

HRC held its 58th Annual General Meeting on 24 May 2017 and two (2) Extraordinary General Meetings on 28 February 2017 and 24 May 2017. The attendance of the Directors at the aforementioned general meetings are set out on page 131 of the Annual Report.

Following presentations by the Chairs of the general meetings, shareholders were given the opportunity to pose questions to the Board. The Chairs of the general meetings responded to queries from shareholders.

The Corporate Governance Overview Statement and CG Report is prepared in compliance with the Listing Requirements and was approved by the Board on 16 April 2018.

BOARD AUDIT COMMITTEE REPORT

INTRODUCTION & COMPOSITION

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

In compliance with the step-up recommendation in Practice 8.4 of MCCG 2017, the BAC consists solely of independent non-executive directors since 24 November 2017. The Independent Non-Executive Directors are able to exercise strong independent judgement and provide balance to the Board with their unbiased and independent views on all Board deliberations.

The current members of the BAC are:

Alan Hamzah Sendut (Chair)

Independent Non-Executive Director

- *Qualified as Member of the Institute of Chartered Accountants in England and Wales (1986)*
- *Malaysian Institute of Accountants (1987)*
- *Chartered Audit Committee Director, Institute of Internal Auditors Malaysia (2018)*

Lim Tau Kien

Senior Independent Non-Executive Director

- *Institute of Chartered Accountants of Scotland (1981)*
- *Malaysian Institute of Accountants (1983)*

Fauziah Hisham

Independent Non-Executive Director

Liang Kok Siang

Independent Non-Executive Director

MEETINGS

The BAC held seven (7) meetings during the financial year ended 31 December 2017. Details of the meetings and the attendance of BAC members are set out on page 132 of the Annual Report.

HRC's Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Chief Assurance Officer, Chief Internal Auditor and PricewaterhouseCoopers PLT (PwC), as external auditors of HRC, were invited to attend BAC meetings to brief the BAC on specific matters as and when required.

PwC had presented its audit plan to the BAC prior to the commencement of their annual audit. PwC has also briefed the BAC on the outcome of the statutory audit for the financial year ended 2017, significant auditing and accounting matters, the progress on business process and information technology systems migration, internal control recommendations and developments in relevant laws and regulations.

The BAC held its independent meeting with PwC on 22 August 2017 without the presence of Management to discuss the plan for the year end audit, level of cooperation received from Management, specific audit concerns and the quality of financial reporting.

Minutes of the BAC meetings were circulated to all BAC members and significant issues were highlighted by the BAC Chair at Board meetings for further discussion and deliberation. Where applicable, recommendations were tabled to the Board for approval.

ACTIVITIES OF THE BAC

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

A summary of the BAC's key activities for the financial year ended 31 December 2017 are set out below.

Terms of Reference and Composition

On 27 February 2018, the BAC reviewed and updated its terms of reference to be compliant with the Listing Requirements, Companies Act 2016 and MCCG 2017.

The revised terms of reference are published on HRC's website.

On 23 November 2017, the BAC and the Board accepted the resignation of Wang ZongQuan, a non-independent non-executive director, as a member of the BAC with effect from 24 November 2017 in line with the step-up recommendation of MCCG 2017 for the audit committee to consist solely of independent non-executive directors.

BOARD AUDIT COMMITTEE REPORT

Assurance Plan 2017

The BAC oversaw HRC's approved assurance plan for the year 2017 which consisted of five (5) regulatory / statutory audits, 15 site internal audits, five (5) operational efficiency reviews and nine (9) process effectiveness reviews to ensure business processes and regulatory compliance. These include:

Name of Audit / Review

Regulatory / Statutory Audits

ISO 9001 Recertification
ISO 14001 Upgrading / OHSAS 18001 Surveillance
ISO 17025
International Ship and Port Facility Security
Interim and Annual Financial Audit by External Auditor

Site Internal Audits

Turnaround review 1 (MTA2018)
Site Turnaround Review 3 (Pitstop 2017)
Contractor Management
ISO9001 / ISO14001 / OHSAS18001
Process Isolation
Pressurised Equipment Integrity
ISO17025
Reliability Centered Maintenance
Emergency Response
Marine Terminal Management and Self-Assessment
Learning From Incident
Permit to Work
International Shipping and Port Facility Security
Site Internal Assurance
Related Party Transaction

Operational Efficiency Reviews

Turnaround Assurance Review 2
Custody Transfer Meter and Mass Balance
Health, Safety and Environmental Management System Audit
Instrumented Protective Function
Social Performance Review (to be completed Q2 2018)

Process Effectiveness Reviews

Management of Change
Hazard Effect Management Process
Mitigate Threat to Availability
Reliability Centred Maintenance
Ensure Safe Production
Emergency Response
Permit To Work
Ensure Quality Product
Site Internal Assurance

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

The progress of the Assurance Plan 2017 and its audits were reported to the Board on a quarterly basis.

Pursuant to the establishment of HRC's BRMC on 29 November 2017, the BAC will only oversee audits relating to finance and corporate governance for the year 2018.

Internal Audit

The internal audit function of HRC is monitored by the BAC and consists of two (2) segments:

- (1) An internal audit department (IAD), which acts as an independent evaluating body to assist and provide assurance to Management, the BAC and the Board. The department is led by a Chief Internal Auditor who reports functionally to the BAC Chair and administratively to the Chief Human Capital Officer; and
- (2) HRC's site internal assurance (SIA), which comprises of 36 trained and / or certified site internal auditors from various departments of HRC. The SIA reviews the site internal audits and process effectiveness of HRC and reports to the Quality & Health, Safety, Safety and Environment Manager.

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

During the year 2017, HRC spent RM231,000 on its internal audit function.

External Audit

The BAC reviewed PwC's audit plan and scope for the financial year ended 2017 and the payment of auditors' statutory and non-audit fees.

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

The non-audit fees for 2017 incurred by HRC amounted to RM57,500. This included work provided by PwC for training on hedging documentation and an application to the Inland Revenue Board of Malaysia for the use of USD functional currency for the computation of annual tax returns.

The BAC is satisfied with the objectivity and independence of PwC, whose appointment was approved by shareholders of the Company at HRC's 58th Annual General Meeting.

Financial Reporting

The BAC also reviewed HRC quarterly financial statements for the year 2017. The condensed financial statements were prepared in accordance with the requirements of Malaysian Financial Reporting standard (MFRS) 134 "Interim Financial Reporting" and paragraph 9.22 of the Listing Requirements.

The annual audited financial statements for the year ended 2016 was also discussed and reviewed during the BAC's meeting on 14 April 2017 to ensure that it was compliant with provisions of the Companies Act 2016, Listing Requirements, applicable approved accounting standards, compliance to new accounting standards and other legal and regulatory requirements.

Risk Management and Internal Control

Up until 29 November 2017, HRC's risk profile was reviewed and deliberated by the BAC on a quarterly basis to ensure sufficient coverage of all major risks in the business environment. In line with recommendations of MCCG 2017, a separate BRMC has since been established by the Board to oversee the risk management and internal control frameworks of the Company.

Related Party Transactions

In year 2017, the BAC reviewed HRC's Circular to Shareholders (Circular) in relation to the proposed renewal of shareholders' mandate and proposed new shareholders' mandate for recurrent related party transactions for the period of 24 May 2017 to the 59th Annual General Meeting of HRC.

BOARD AUDIT COMMITTEE REPORT

As a matter of prudence, the BAC recommended that Mercuria Energy Trading Pte Ltd. and the Royal Dutch Shell group of companies be deemed as parties related to HRC due to their connection with Sun JianYun and Martinus Joseph Marinus Aloysius Stals (Maarten Stals), who were Director and Managing Director of HRC, respectively. This was elaborated in more detail in the Circular. Shareholders' mandates for recurrent related party transactions with the abovementioned entities were sought at the Extraordinary General Meeting of HRC on 24 May 2017.

Following the resignations of Sun JianYun with effect from 1 June 2017 and Maarten Stals on 1 March 2018 and in accordance with the Listing Requirements, Mercuria Energy Trading Pte Ltd ceased to be a party related to HRC on 1 December 2017 and the Shell group of companies will cease to be a party related to HRC on 1 September 2018.

In addition, the BAC oversaw HRC's compliance with the Listing Requirements in respect of related party transactions and recurrent related party transactions and ensured that the necessary announcements were made to Bursa Malaysia Securities Berhad.

Others

Other activities considered by the BAC during its meetings include:

- (a) HRC's transition of functional currency from MYR to USD, which was effective from 1 January 2017, and the changes that had to be applied to the accounting, finance and tax-related aspects of the Company;

- (b) HRC's acceptance of banking, financial and insurance services from licensed institutions to ensure that these were done on the most optimal terms, including the USD430 million refinancing exercise that was entered into with Ambank (M) Berhad – Labuan Offshore Branch, China Construction Bank (Malaysia) Berhad and Maybank International Labuan Branch on 23 January 2018;
- (c) The Company's cash forecast and financing planning;
- (d) The establishment of the margins and inventory hedging policy, which was tabled to and approved by the Board on 15 June 2017;
- (e) HRC's information technology projects for improving efficiency, security and robustness after its major shareholder transition and risk management actions taken against cyber or digital threats; and
- (f) Whistleblowing and other business integrity related cases reported to the BAC, where the BAC ensured that appropriate actions were taken.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors (Board) of Hengyuan Refining Company Berhad (HRC) is committed to maintaining a sound internal control and risk management system to ensure a smooth running of the business. It is HRC's aim to manage its risks and to control its business and financial affairs economically, efficiently and effectively so as to be able to deliver profitable business opportunities in a disciplined way, to avoid or mitigate risks that can cause loss, reputational damage or business failure, and to enhance resilience to external events. The following statement outlines the nature and scope of HRC's internal control and risk management in 2017.

BOARD'S RESPONSIBILITY

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

The BAC assists and supports the Board's responsibility of overseeing the Company's operations by providing a means for reviewing the Company's processes or producing financial data, its internal controls, and policies and procedures to assess the suitability, objectivity and independence of the Company's external auditor and internal audit function. The adequacy and effectiveness of the system has been reviewed by BAC in relation to the audits conducted by Site Internal Assurance (SIA) during the year. Audit issues and actions taken by Management to address the issues tabled by SIA were deliberated on during the BAC meetings.

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

MANAGEMENT’S ROLE

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

RISK MANAGEMENT

The risk management function was formalised to provide an enterprise-wide view of the risk management within HRC.

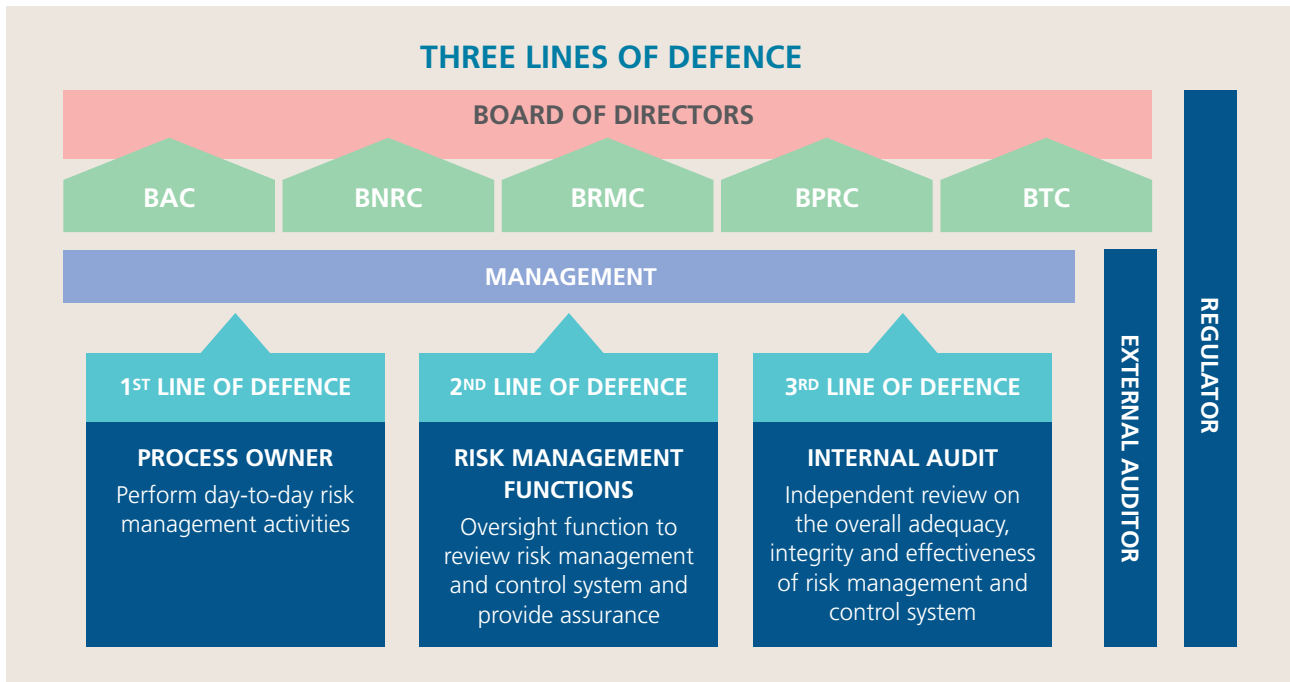
The objective of risk management is to set advanced awareness and boundaries for risk-taking and to apply fit-for-purpose risk responses in order to enable HRC to provide a reasonably sufficient, and not an absolute assurance, against material misstatements, fraud or loss. In addition, it allows HRC to operate and achieve its objectives, within a managed and acceptable risk profile.

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

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

HRC adopts the best practices from ISO 31000:2009 Risk Management – Principles and Guidelines to manage the risks of its business and operations. HRC has an established and structured process for the identification, assessment, communication, monitoring as well as continual review of risks and effectiveness of risk mitigation strategies and controls.

HRC’s risk management is backed up by the implementation of three lines of defence that distinguishes the three groups which are involved in effective management of risk in HRC.



Management has conducted a systematic and comprehensive evaluation of the Key Risk Areas which were deliberated and presented to BRMC. The implementation of risk controls are monitored and the results presented during BRMC meetings.

INTERNAL CONTROL

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

1. AUTHORITY AND RESPONSIBILITY

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

2. ORGANISATION STRUCTURE AND MANAGEMENT COMMITTEE

- a. An organisational structure, which is aligned to the business and operational requirements, and with clearly defined lines of responsibility, accountability and levels of authority, is in place to assist in implementing HRC's strategies and day-to-day business activities.
- b. The Management Team serves in an advisory capacity to the Chief Executive Officer and Chief Financial Officer in accomplishing the vision, strategies and objectives set for HRC.

Various functional committees have also been established across the Company to ensure HRC's activities and operations are properly aligned towards achieving its organisational goals and objectives.

3. PLANNING, MONITORING AND REPORTING

- a. An annual planning and budgetary exercise is undertaken by all departments to prepare business plans and budgets for the forthcoming year. These are deliberated on by the BAC to ensure alignment with the strategy as agreed at the latest strategy review. Thereafter, the BAC would recommend to the Board for approval before its implementation.

- b. HRC's financial performances are reviewed regularly by Management. The financial results and variances (if any) are presented to the Board on a quarterly basis.
- c. There is a regular and comprehensive flow of information by Management to the Board on all aspects of the HRC's operations to facilitate the monitoring of performance against HRC's corporate strategy, business and regulatory plans.
- d. The sustainability plan is established by Management and reviewed by the Board to ensure its robustness in achieving HRC's objectives. The sustainability plan was approved by the Board for disclosure in the HRC's Sustainability Statement and standalone Sustainability Report.

4. POLICIES AND PROCEDURES

Clear, formalised and documented internal policies, standards and procedures are in place to ensure compliance with internal controls and relevant laws and regulations. A list of identified laws and regulations applicable to HRC is documented and maintained to facilitate compliance. Regular reviews are performed to ensure that documentation remains current and relevant. Policies and procedures are available on HRC's intranet and accessible by the employees.

5. COMPLIANCE MANAGEMENT

HRC's compliance management covers compliance to all relevant laws, regulations, rules and major identified guidelines or legal requirements. It also covers risk-based compliance to internal policies, procedures and code of conduct.

In 2017, no major non-compliance was encountered.

6. CODE OF CONDUCT

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Code outlines the following:

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

7. INFORMATION AND COMMUNICATIONS TECHNOLOGY

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

HRC has committed to obtain the certification in Information Security Management System (ISMS), MS ISO / IEC 27001:2013 and continues to enhance its information and communication systems in ensuring that it can act as an enabler to improve business processes, work productivity and decision making throughout HRC.

8. EMPLOYEES PERFORMANCE MANAGEMENT

HRC selects individuals for employment through a structured recruitment process. The professionalism and competency of employees are continuously enhanced through a structured training and development programme. A performance management system is in place which measures employees performance against agreed goals on an annual basis.

9. WHISTLEBLOWER POLICY

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

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

INTERNAL AUDIT

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

In 2017, the following reviews were performed and reported to the BAC:

- a. Audit engagements are carried out based on the 4-year assurance plan proposed by SIA and approved by the BAC. SIA assesses the audit areas with regard to risk exposures, compliance towards the approved policies and procedures and relevant laws and regulations. For any significant gaps identified, SIA provides recommendations to Management to improve the effectiveness of controls where applicable.

b. A yearly assessment was carried out by:

- SIRIM Berhad for Quality Management Systems (ISO 9001:2015), Environmental Management Systems (ISO 14001:2015) and Occupational Health and Safety Management System (OHSAS 18001:2007); and
- Department of Standard Malaysia for the Laboratory Quality Management System (ISO/IEC 17025:2017).

The reviews concluded that HRC was conforming to the requirements of the management system.

OTHERS

In addition to the annual audit of HRC's financial statements conducted by the External Auditors, the External Auditors were engaged to conduct:

- reviews on financial results in accordance with the International Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* as required;
- review on regulatory compliance with MCCG 2017 and the compliance of the Annual Report with the requirements of the Companies Act 2016 and Listing Requirements; and
- financial impact assessment on proposed hedging structure.

REVIEW OF THIS STATEMENT

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

CONCLUSION

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

The Board is of the view that risk management and internal controls instituted throughout HRC are sound and provide a reasonable level of confidence but not absolute assurance that HRC is not affected by any event that cannot be reasonably foreseen. In the year under review, the Board is not aware of any significant control failure or weakness that would have resulted in material losses, contingencies or uncertainties requiring separate disclosure in the Annual Report.

This statement is approved by the Board of Directors on 16 April 2018.

FINANCIAL REPORTS

+54% ↑

REFINING MARGIN

+5% ↑

SALES VOLUME

+38% ↑

REVENUE

+177% ↑

PROFIT AFTER TAX





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DIRECTORS' REPORT

The Directors are pleased to submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2017.

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	929,759

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 is payable on 17 April 2018 to shareholders registered on the Record of Depositors at the close of business on 20 March 2018. These financial statements do not reflect the interim dividend which will be accounted for in the financial year ending 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	
Lim Tau Kien	(appointed on 25 May 2017)
Alan Hamzah Sendut	(appointed on 25 May 2017)
Fauziah binti Hisham	(appointed on 1 June 2017)
Liang Kok Siang	(appointed on 1 June 2017)
Dato' Seri Talaat bin Haji Husain	(retired on 24 May 2017)
David Lau Nai Pek	(retired on 24 May 2017)
Datuk Yau Ah Lan @ Fara Yvonne	(resigned on 1 June 2017)
Datuk Zainun Aishah binti Ahmad	(resigned on 1 June 2017)
Heng Heyok Chiang @ Heng Hock Cheng	(resigned on 1 June 2017)
Sun, JianYun	(resigned on 1 June 2017)
Martinus Joseph Marinus Aloysius Stals	(resigned on 1 March 2018)

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 during the financial year.

DIRECTORS' REMUNERATION

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

INDEMNITY AND INSURANCE COST

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM60,000.

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 12 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.

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 27 to the financial statements; and
- (b) any contingent liability which has arisen since the end of the financial year.

DIRECTORS' REPORT

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (continued)

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; 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, 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.

PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146) was registered on 2 January 2018 and with effect from that date, PricewaterhouseCoopers (AF 1146), a conventional partnership was converted to a limited liability partnership.

This report was approved by the Board of Directors on 16 April 2018. 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 80 to 124 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2017 and financial performance of the Company for the financial year ended 31 December 2017 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 16 April 2018.

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 80 to 124 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 16 April 2018.

Before me:

W.490 S. ARULSAMY
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 2017, and of its financial performance and its cash flows for the financial 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 2017, 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 80 to 124.

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)

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.

Key audit matter	How our audit addressed the key audit matter
<p>Carrying amount of plant, machinery and equipment</p> <p><i>Refer to Note 3 – critical accounting estimates and judgements, Note 2.3 – significant accounting policies, Note 13 – property, plant and equipment.</i></p> <p>The carrying amount of the Company's plant, machinery and equipment of RM489,280,000 as at 31 December 2017, is net of accumulated impairment losses of RM417,144,000.</p> <p>We focused on this area considering the material amount involved and the significant judgements and estimates made by the Directors in determining the value in use ("VIU") for its impairment assessment.</p> <p>The key assumptions considered in the VIU calculation include:</p> <ul style="list-style-type: none"> 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. <p>Based on the impairment assessment of the VIU, the Directors are of the view that no reversal of impairment is required.</p>	<p>We performed the following audit procedures on the VIU calculation which was approved by the Board:</p> <ul style="list-style-type: none"> Discussed with the Board Audit Committee members and the Chief Financial Officer on the VIU calculation to understand the key assumptions which formed the basis of the recoverable amount. This included our understanding of the updated key assumptions used to determine the refinery's VIU since the last impairment assessment performed in 2016. The key assumptions are the projected refining margins and capital expenditure to be incurred to ensure compliance with future changes in regulations for product specifications; 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 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 to assess if reasonable changes in these assumptions could give rise to a material reversal of the impairment loss previously recognised. <p>Based on the procedures performed, we did not find any material exception to the Directors' view that no reversal of impairment is required.</p>

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Translation of the Company’s transactions and balances from Ringgit Malaysia (“RM”) to United States Dollars (“USD”)</p> <p><i>Refer to Note 2.1 – basis of preparation and Note 2.2 – significant accounting policy.</i></p> <p>The Company changed its functional currency from Ringgit Malaysia (“RM”) to United States Dollars (“USD”) with effect from 1 January 2017.</p> <p>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 2017.</p> <p>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.</p>	<p>We tested the accuracy of the translation of opening balances, closing balances and transactions during the year from RM to USD by performing the following:</p> <ul style="list-style-type: none"> • Tested that the opening balances as at 1 January 2017 were translated using the opening foreign exchange rate on 1 January 2017 which have been agreed to an external source; • 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 or the opening foreign exchange rate on 1 January 2017 as applicable; • 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 2017. <p>Based on the procedures performed, we did not find any material exceptions to the translation of transactions and balances from RM to USD.</p>

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(Incorporated in Malaysia)
(Company No. 3926-U)

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 Chairman's Statement, Management Discussion & Analysis, Corporate Governance Statement, Board Audit Committee Report, Statement on Risk Management and Internal Control, Directors' Report, Company Properties, Additional Corporate Governance Disclosures and Recurrent Related Party Transaction, but 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, 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.

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.

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

- (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 represent the underlying transactions and events in a manner that achieves fair presentation.

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

Kuala Lumpur
16 April 2018

PAULINE HO

02684/11/2019 J
Chartered Accountant

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
Revenue	6	11,583,467	8,365,330
Purchases		(10,150,554)	(7,550,208)
		1,432,913	815,122
Other income	7	30,764	39,685
Manufacturing expenses		(246,747)	(223,002)
Administrative expenses		(54,993)	(46,021)
Depreciation and amortisation		(205,688)	(195,295)
Other operating gains/(losses)		80,932	(6,162)
Finance cost	8	(63,679)	(49,054)
Profit before taxation	9	973,502	335,273
Taxation	10	(43,743)	–
Profit for the financial year		929,759	335,273
Other comprehensive expense:			
<i>Items that will be reclassified to profit or loss:</i>			
Cash flow hedge - net fair value loss on derivative used for hedging (net of tax)		(1,727)	–
<i>Items that will not be reclassified to profit or loss:</i>			
Foreign currency translation differences		(149,777)	–
		(151,504)	–
Total comprehensive income for the financial year		778,255	335,273
Earnings per unit of share (sen) - basic	11	310	112

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	736,834	851,282
Prepaid lease payments	14	1,632	1,824
Intangible assets	15	38,433	51,444
		776,899	904,550
CURRENT ASSETS			
Inventories	16	1,109,945	825,819
Trade receivables	17	1,081,278	950,686
Other receivables and prepayments	18	166,296	41,514
Tax recoverable		1,230	1,050
Derivative financial assets	19	3,498	–
Deposits with licensed banks	20	310,000	328,900
Bank balances	20	202,907	26,712
		2,875,154	2,174,681
TOTAL ASSETS		3,652,053	3,079,231
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	300,000	300,000
Retained earnings	23	1,640,198	710,439
Cash flow hedges	24	(1,727)	–
Exchange translation reserve	24	(149,777)	–
		1,788,694	1,010,439
CURRENT LIABILITIES			
Trade and other payables	25	587,297	651,879
Amounts due to immediate holding company	26	14,200	–
Derivative financial liabilities	19	14,812	–
Borrowings	27	79,103	87,324
		695,412	739,203
NON-CURRENT LIABILITIES			
Borrowings	27	1,125,905	1,329,589
Deferred tax liabilities	28	42,042	–
		1,167,947	1,329,589
TOTAL EQUITY AND LIABILITIES		3,652,053	3,079,231

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 2017

	Note	Issued and fully paid ordinary shares		Non-distributable			Distributable	Total equity RM'000
		Number of shares '000	Nominal value RM'000	PSP reserve RM'000	Exchange translation reserve RM'000	Cash flow hedge RM'000	Retained earnings RM'000	
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
At 1 January 2016		300,000	300,000	1,924	–	–	375,166	677,090
Total comprehensive income for the financial year		–	–	–	–	–	335,273	335,273
<u>Transaction with owners</u>								
PSP from RDS*	22							
- recharge by parent		–	–	(2,983)	–	–	–	(2,983)
- charge during the financial year		–	–	1,059	–	–	–	1,059
Total transactions with owners		–	–	(1,924)	–	–	–	(1,924)
At 31 December 2016		300,000	300,000	–	–	–	710,439	1,010,439

* Performance Share Plan from Royal Dutch Shell Plc

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		973,502	335,273
Adjustments for:			
Interest expense		58,905	40,098
Interest income		(16,564)	(4,376)
Property, plant and equipment			
- depreciation		189,384	191,754
- write off		-	965
Amortisation of prepaid lease payments		22	19
Amortisation of intangible assets		16,282	3,523
Write back of allowance for inventories, net		(113)	(4,917)
Allowance/(reversal of allowance) for doubtful debts		1,383	(759)
Amortisation of term loan commitment fees		4,541	-
Net fair value loss/(gain) on derivative financial instruments		1,549	(13,195)
Net foreign exchange gain - unrealised		(14,336)	(11,267)
PSP from RDS		-	1,059
Operating profit before changes in working capital		1,214,555	538,177
Changes in working capital:			
Inventories		(375,786)	(125,198)
Trade and other receivables		(357,333)	(252,623)
Trade, other payables and amounts payable to immediate holding company		(20,425)	(172,650)
Cash generated from/(used in) operations		461,011	(12,294)
Interest received		16,564	4,376
Net tax (paid)/refund		(765)	2,753
Net cash flows generated from/(used in) operating activities		476,810	(5,165)
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment			
- additions		(125,980)	(14,773)
Intangible asset			
- additions		(3,432)	(12,694)
Net cash flows used in investing activities		(129,412)	(27,467)

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(86,006)	(1,480,440)
Interest paid		(58,972)	(38,425)
Prepaid term loan instalments		(571)	(11,096)
Security deposit placed with a licensed bank for trade facilities		(10,000)	–
Net proceeds from borrowings		–	1,413,043
Proceeds from settlement of derivatives		–	318,383
Net cash flows (used in)/generated from financing activities		(155,549)	201,465
NET INCREASE IN CASH AND CASH EQUIVALENTS		191,849	168,833
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		344,516	175,523
EFFECTS OF EXCHANGE RATE CHANGES		(43,479)	160
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	20	492,886	344,516

Reconciliation of liabilities arising from financing activities:

	Non-cash changes					At 31 December 2017 RM'000
	At 1 January 2017 RM'000	Cash outflows RM'000	Interest accrued RM'000	Amortisation of term loan RM'000	Foreign exchange movement RM'000	
Borrowings	1,416,913	(144,978)	58,905	3,870	(129,702)	1,205,008

During the financial year ended 31 December 2017, the Company acquired property, plant and equipment with an aggregate cost of RM153,518,000 (2016: RM14,666,252). Cash payments of RM125,980,000 (2016: RM14,773,203) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM27,538,000 (2016: RM8,050,049) is included within accruals for capital expenditure as disclosed in Note 25.

The Company also acquired intangible assets with an aggregated cost of RM7,534,000 (2016: 54,967,166) during the financial year, for which cash payments of RM3,432,000 (2016: RM12,694,166) were made. The balance unpaid as at 31 December 2017 amounting to RM4,102,000 (2016: RM42,273,000) is included within accruals for capital expenditure as disclosed in Note 25.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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 Company changed its name from Shell Refining Company (Federation of Malaya) Berhad to Hengyuan Refining Company Berhad with effect from 9 March 2017.

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 judgment in the process of applying the Company’s accounting policies. Although these estimates and judgment are based on the Directors’ best knowledge of current events and actions, actual results may differ. As at 31 December 2017, the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

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 2017 are as follows:

- Amendments to MFRS 107 "Statement of Cashflows – Disclosure Initiative"
- Amendments to MFRS 112 "Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses"

The adoption of the Amendments to MFRS 107 has required additional disclosure of changes in liabilities arising from financing activities. Other than that, the adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(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 following periods:

- (i) Financial year beginning on 1 January 2018
- MFRS 9 "Financial Instruments" will replace MFRS 139 "Financial Instruments: Recognition and Measurement"

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 and fair value through other comprehensive income ("OCI"). 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.

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)

The Company will apply the new standards, amendments to published standards and interpretations to existing standards in the following periods: (continued)

(i) Financial year beginning on 1 January 2018 (continued)

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. The Company has confirmed that its current hedge relationships will qualify as continuing hedges upon the adoption of MFRS 9.

The Company does not expect the requirements of the new standard to affect the classification and measurement of both its financial assets and financial liabilities. The expanded disclosure requirements and changes in presentation as required by the standard will be incorporated in the Company's financial statements for the financial year ending 31 December 2018.

- MFRS 15 "Revenue from contracts with customers" effective from 1 January 2018 replaces MFRS 118 "Revenue" and related interpretations. The core principle 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 or 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 generally be 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 vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and consignment arrangement, to name a few.
- As with any new standard, there are also increased disclosures.

The Company does not expect any material changes upon the adoption of MFRS 15 beginning 1 January 2018 as the revenue recognition principles proposed by MFRS 15 are largely consistent with the current measurement and timing of revenue recognition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

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)

The Company will apply the new standards, amendments to published standards and interpretations to existing standards in the following periods: (continued)

(ii) Financial year beginning on 1 January 2019

- 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 does not expect any material changes upon the adoption of MFRS 16 as its existing classification and treatment of leased assets are consistent with the requirements of the new standard.

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 changed its functional currency from Ringgit Malaysia (“RM”) to United States Dollar (“USD”) with effect from 1 January 2017 following the refinancing of the Company’s borrowings to entirely USD denominated loans.

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 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 INTANGIBLE ASSETS

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

Intangible assets are amortised from the date that they are available for use. 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 5 years. Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted, if appropriate.

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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 FINANCIAL ASSETS (continued)

(a) Classification (continued)

(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

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.8 FINANCIAL ASSETS (continued)****(d) Subsequent measurement - impairment of financial assets (continued)****Assets carried at amortised cost (continued)**

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) De-recognition

Financial assets are de-recognised 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 de-recognition 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 DERIVATIVE 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. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2.8. 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).

The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair value or cash flows of hedged items.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 DERIVATIVE AND HEDGING ACTIVITIES (continued)

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 24. 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

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 (for instance when the forecast sales that is hedged takes 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 in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately realised to profit or loss.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in "other operating gains/losses".

(c) 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 RECEIVABLES**

Trade receivables are amounts due from customers for oil products sold in the ordinary course of business. 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 fair value and 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 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.

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 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) De-recognition

A financial liability is de-recognised 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 de-recognition 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 or less (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 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 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.

2.16 BORROWINGS AND BORROWING COSTS

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 BORROWINGS AND BORROWING COSTS (continued)

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.

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.

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

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.

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.

2.18 REVENUE RECOGNITION

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.

(a) Sale of oil products

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer.

Revenue is recognised upon delivery of products and acceptance by customers of refined and partially refined oil products and feedstocks, net of government taxes.

(b) Interest income

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.

(c) Other income

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

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. 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. The corresponding rental obligations, net of finance charges is included in payables. Finance charges are charged to profit or loss.

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

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 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 SHARE BASED PAYMENTS

Royal Dutch Shell Plc (“RDS”), the Company’s ultimate holding company prior to the acquisition of the issued and paid up share capital of the Company by Malaysia Hengyuan International Limited, operated a number of equity settled, share-based compensation plan for the employees of RDS and its subsidiaries.

Employee services received in exchange for the grant of the share options were recognised as an expense in the prior year’s profit or loss over the vesting period of the grant, with a corresponding increase in equity as a contribution from RDS.

The total amount to be expensed over the vesting period was determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions were included in the assumptions about the number of options that were expected to vest. At the end of the previous reporting date, RDS revised its estimates of the number of share options that were expected to vest. It recognised the impact of the revision of original estimates, if any, in prior year’s profit or loss, with a corresponding adjustment to equity as an employees’ share option scheme reserve.

Where RDS recharged the Company for the equity instruments granted, the recharge was treated as an adjustment to the equity contribution from RDS.

All PSP initially funded by RDS had been repaid by the Company to RDS in the previous financial year.

2.25 EARNINGS PER SHARE

(a) 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.

2.26 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 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:

Impairment of plant, machinery and equipment

The Company reviews the carrying values of its plant 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.

The Company had a change in its controlling shareholder in the previous financial year, being Malaysia Hengyuan International Limited ('MHIL'). In the current financial year, MHIL 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 value of the plant, machinery and equipment of RM489,280,000 net of accumulated impairment loss of RM417,144,000. 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 every four years. 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, which were discounted at a rate of 11%.

The positive refining margin in the current year remains uncertain going forward due to market stabilisation initiatives by the oil and gas industry. Therefore, it is reasonably possible that the estimate of expected future cash flows may change in the near term resulting in the need to adjust the resulting cash flow projections to support the recoverable amount of the refinery. Accordingly, the Directors are of the view that no reversal of impairment to the carrying amount of the refinery is required.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks; market risk (including foreign currency exchange risk and interest rate 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. In addition, financial assets and liabilities such as trade receivables, trade payables and borrowings arise directly from the Company's operations. Straightforward derivative financial instruments are utilised by the Company to manage the exposure to foreign currency and interest rate risks. The Company does not enter into derivative financial instruments for trading purposes.

(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. In the previous financial year, financial assets and liabilities affected by foreign currency exchange risk include intercompany balances, receivables and payables, deposit and bank balances and bank borrowings. The Company has changed its functional currency from RM to USD with effect from 1 January 2017 following the refinancing of the Company's borrowings to entirely USD denominated loans. Due to the change in functional currency, the Company's exposure to foreign currency exchange risk has changed from USD to RM. The financial assets and liabilities affected by foreign currency risk in the current financial year include receivables and payables, amount due to holding company and deposit 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.

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 (2016: USD to RM exchange rate):

	Increase/(Decrease) in profit after tax, equity and net assets	
	2017 RM'000	2016 RM'000
RM strengthens by 10%	99,882	–
RM weakens by 10%	(99,882)	–
USD strengthens by 10%	–	(139,799)
USD weakens by 10%	–	139,799

(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.

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 27.

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.

Based on these scenarios, the Company calculates the impact on profit or loss of a defined interest rate shift. The scenarios are run only for borrowings and deposits that represent the major interest-bearing positions.

	Increase/(Decrease) in profit after tax, equity and net assets	
	2017 RM'000	2016 RM'000
100 basis points increase in interest rate	(9,103)	(10,769)
100 basis points decrease in interest rate	9,103	10,769

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(iii) Commodity price 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. During the financial year, the Board has approved a policy for the hedging of refining margins 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.

	Increase/(Decrease) in profit after tax, equity and net assets	
	2017 RM'000	2016 RM'000
10% increase in refining margin	4,499	–
10% decrease in refining margin	(4,499)	–

(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.

78% (2016: 95%) of the Company's total receivables at the reporting date are due from two (2016: 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.

(ii) Deposits with licensed banks, bank balances and forward contracts

The Company seeks to invest cash assets safely and profitably. Deposits and forward contracts 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.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

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 Term Loan II, subject to cash deposits placed by an intermediate holding company, as disclosed in Note 27.

As at 31 December 2017, there are outstanding borrowings amounting to RM1,205,008,000 (2016: RM1,416,913,000). The borrowings have been repaid in the subsequent year using a mix of cash flows generated from operations and new financing facilities as disclosed in Note 35.

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:

	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
At 31 December 2017					
Non-derivative financial liabilities					
Trade and other payables excluding statutory liabilities	586,705	–	–	586,705	586,705
Amount due to 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 swaps	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)	–
- outflow	223,218	–	–	223,218	1,462
	14,812	–	–	14,812	14,812
	754,001	182,186	1,083,432	2,019,619	1,820,725
At 31 December 2016					
Non-derivative financial liabilities					
Trade and other payables excluding statutory liabilities	642,354	–	–	642,354	642,354
Borrowings	150,000	340,379	1,187,360	1,677,739	1,416,913
	792,354	340,379	1,187,360	2,320,093	2,059,267

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:

	2017 RM'000	2016 RM'000
Total borrowings	1,205,008	1,416,913
Total equity	1,788,694	1,010,439
Total borrowings	1,205,008	1,416,913
Total capital	2,993,702	2,427,352
Gearing ratio	40%	58%

The borrowings of the Company are subject to the banks' covenants, which include debt service cover ratios, which the Company has complied with.

5 FAIR VALUE MEASUREMENTS

(a) Determination of fair value

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 amount of financial assets and liabilities measured at amortised cost approximates their respective fair values.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

5 FAIR VALUE MEASUREMENTS (continued)**(a) Determination of fair value (continued)****Financial instruments carried at fair value**

Refining margin swaps, forward foreign currency contracts and forward priced commodity 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.

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).

There were no outstanding derivative financial instruments as of 31 December 2016. Derivative financial instruments outstanding as at 31 December 2017 are detailed below:

Derivatives	As at 31 December 2017	
	Contract Value USD'000	Fair Value RM'000
Refining margin swaps, net	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 swaps	-	3,498	-	3,498
Derivative financial liabilities:				
- Refining margin swaps	-	(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

	2017 RM'000	2016 RM'000
Sale of oil products:		
- refined	11,579,846	8,363,891
- crude oil	3,621	1,439
	11,583,467	8,365,330

7 OTHER INCOME

	2017 RM'000	2016 RM'000
Operating and transport fees	14,200	13,669
Interest income	16,564	4,376
Cost recovery from intellectual property buy-out	–	21,640
	30,764	39,685

In the previous financial year, as part of the acquisition of 51% of the issued and paid up share capital of the Company by MHIL from Shell Overseas Holdings Limited (“SOHL”), RDS acquired ownership of all intellectual property previously developed in the Company’s refinery via an intellectual property buy-out arrangement.

RDS then granted the Company rights to use said intellectual property to operate the refinery indefinitely for a one-time fee.

8 FINANCE COST

	2017 RM'000	2016 RM'000
Interest expense:		
- term loan	58,905	32,427
- short-term borrowings	–	1,285
- bank facilities and commitment fees	4,541	–
- cross-currency interest rate swap ('CCIRS')	–	6,386
Total interest expense	63,446	40,098
Foreign exchange loss on term loans:		
- unrealised	–	2,193
- realised	–	19,878
Fair value gain on derivative financial instruments	–	(13,195)
Others	233	80
	63,679	49,054

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

9 PROFIT BEFORE TAXATION

	2017 RM'000	2016 RM'000
The profit before taxation is arrived at after charging/(crediting):		
Auditors' remuneration:		
- statutory audit fees	355	390
- audit-related fees	135	48
- fees for non-audit services	58	–
Cost of inventories	10,156,363	7,206,687
Write back of allowance for inventories	(113)	(4,917)
Staff cost:		
- salaries, bonus and allowances	75,691	67,620
- defined contribution plan	11,315	11,516
- other employee benefits	7,933	8,897
- share based payments	–	1,059
Foreign exchange (gain)/ loss		
- realised	(56,962)	52,271
- unrealised	(25,494)	(11,267)
Net fair value loss/(gain) on derivative financial instruments	1,549	(13,195)
Ineffective portion of cash flow hedges	(25)	–
Depreciation of property, plant and equipment	189,384	191,754
Property, plant and equipment written off	–	965
Amortisation of prepaid lease payments	22	19
Amortisation of intangible asset	16,282	3,523
Allowance/(reversal of allowance) for doubtful debts	1,383	(759)

10 TAXATION

	2017 RM'000	2016 RM'000
Current tax – Malaysian tax		
- current financial year	109	–
Deferred taxation (Note 28)		
- origination and reversal of temporary differences	43,634	–
Tax expense recognised in profit or loss	43,743	–
Deferred taxation (Note 28)		
- origination and reversal of temporary differences	(545)	–
Taxation recognised in other comprehensive income	(545)	–

10 TAXATION (continued)

Income tax is calculated at the Malaysian statutory tax rate of 24% (2016: 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:

	2017	2016
	%	%
Applicable statutory tax rate	24	24
Tax effects in respect of:		
- expenses not deductible for tax purposes	1	3
- income not taxable due to difference between functional and tax reporting currency	(1)	-
- utilisation of tax losses / deductible temporary differences previously not recognised	(19)	(27)
Effective tax rate	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.

	2017	2016
Profit for the financial year (RM'000)	929,759	335,273
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic earnings per unit of share (sen)	310	112

12 DIRECTORS' REMUNERATION

	2017	2016
	RM'000	RM'000
Fees	928	421
Salaries, bonus and allowances	1,909	1,141
Defined contribution plan	-	108
Share based payment	-	1
	2,837	1,671

Indemnity insurance for Directors and officers of the Company during the financial year amounted to RM60,000.

01 **NOTES TO THE FINANCIAL STATEMENTS**

02 FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

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05 FINANCIAL REPORTS

13 PROPERTY, PLANT AND EQUIPMENT

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

13 PROPERTY, PLANT AND EQUIPMENT (continued)

2016	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	3,430,984	8,945	3,615,423
Additions	–	–	–	–	14,666	14,666
Write-off	–	–	–	(5,983)	–	(5,983)
Reclassification	–	–	–	2,177	(2,177)	–
At 31 December	50,598	15,654	109,242	3,427,178	21,434	3,624,106
Accumulated depreciation						
At 1 January	–	13,834	59,173	2,052,203	–	2,125,210
Charge for the financial year	–	338	2,463	188,953	–	191,754
Write-off	–	–	–	(5,018)	–	(5,018)
At 31 December	–	14,172	61,636	2,236,138	–	2,311,946
Accumulated impairment losses						
At 1 January/At 31 December	–	–	–	460,878	–	460,878
Carrying amount						
At 31 December	50,598	1,482	47,606	730,162	21,434	851,282

Property, plant and equipment as at 31 December 2017 are pledged as security for borrowings as disclosed in Note 27.

14 PREPAID LEASE PAYMENTS

	2017 RM'000	2016 RM'000
As at 1 January	1,824	1,843
Amortisation for the financial year	(22)	(19)
Effect of exchange rate changes	(170)	–
As at 31 December	1,632	1,824

Prepaid lease payments as at 31 December 2017 are pledged as security for borrowings as disclosed in Note 27.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

15 INTANGIBLE ASSETS

	2017 RM'000	2016 RM'000
Cost		
At 1 January	54,967	–
Additions	7,534	54,967
Effect of exchange rate changes	(5,639)	–
At 31 December	56,862	54,967
Accumulated amortisation		
At 1 January	3,523	–
Amortisation for the financial year	16,282	3,523
Effect of exchange rate changes	(1,376)	–
At 31 December	18,429	3,523
Carrying amount		
At 31 December	38,433	51,444

Intangible assets relate to costs incurred by the Company in setting up its standalone IT systems following the divestment by SOHL in the previous financial year.

The useful life of IT development and software is 3 years (2016: 3 years).

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

16 INVENTORIES

	2017 RM'000	2016 RM'000
Crude oil	653,215	462,065
Petroleum products	432,524	339,134
Less: Reversal/(allowance) for inventories	482	(482)
	433,006	338,652
Materials	24,093	25,102
Allowance for inventories	(369)	–
	23,724	25,102
	1,109,945	825,819

16 INVENTORIES (continued)

Included within crude oil is stock in transit as at 31 December 2017 of RM149,492,000 (2016: RM70,833,835).

Inventories as at 31 December 2017 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 27.

17 TRADE RECEIVABLES

	2017 RM'000	2016 RM'000
Gross trade receivables	1,082,584	950,686
Less: Provision for impairment	(1,306)	–
Trade receivables	1,081,278	950,686

The credit terms range between 15 to 30 days (2016: 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:

	2017 RM'000	2016 RM'000
Neither past due nor impaired	1,017,086	926,486
1 to 30 days past due but not impaired	46,123	4,979
30 to 180 days past due but not impaired	5,191	15,006
More than 180 days past due but not impaired	12,878	4,215
	64,192	24,200
	1,081,278	950,686

(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 2017, trade receivables amounting to RM64,193,000 (2016: RM24,200,000) were past due but not impaired. Management is of the view that these amounts will be recoverable based on historical collection trends.

01 **NOTES TO THE FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

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FINANCIAL REPORTS

17 TRADE RECEIVABLES (continued)

(iv) Receivables that are impaired

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

	2017 RM'000	2016 RM'000
As at 1 January	–	–
Provision for impairment	1,383	–
Effect of exchange rate changes	(77)	–
As at 31 December	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 2017 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 27.

18 OTHER RECEIVABLES AND PREPAYMENTS

	2017 RM'000	2016 RM'000
Goods and Service Tax ('GST') receivable	160,235	–
Other receivables	3,582	29,610
Prepayments	2,479	11,904
	166,296	41,514

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

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

	Contract/ notional amount USD'000	Assets RM'000	Liabilities RM'000
2017			
Cash flow hedges			
- Refining margin swap contracts	40,826	3,498	(5,619)
Financial liabilities at fair value through profit or loss			
- Forward foreign exchange contracts	55,000	–	(1,462)
- Forward priced commodity contracts	51,030	–	(7,731)

The Company did not hold any derivative financial instruments as at 31 December 2016.

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

Derivatives designated in hedging relationship:

(a) Refining margin swap contracts

The Company purchases crude on an ongoing basis as the Company requires continuous supply of crude to produce petroleum. 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 to reduce the volatility of cash flows.

The contracts are intended to hedge the volatility of the purchase price of crude for a period between 1 to 4 months based on existing purchase agreements. There were no highly probable transactions for which hedge accounting had previously been used, which is no longer expected to occur.

The cash flow hedges of the highly probable forecast crude purchases or firm purchase commitments were assessed to be highly effective and as at 31 December 2017, a net unrealised loss of RM2,272,000, with a related deferred tax asset of RM545,000 was included in other comprehensive income in respect of these contracts. The ineffectiveness portion recognised in "other operating gains/(losses)" in the profit or loss during the financial year was RM25,000, as disclosed in Note 9.

The amount removed from other comprehensive income during the period and included in the carrying amount of the hedging items as a basis adjustment was immaterial for the financial year ended 31 December 2017. The amounts retained in other comprehensive income at 31 December 2017 are expected to mature and affect the profit or loss by a loss in 2018.

Derivatives not designated in hedging relationship:

(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

During the current financial year, the Company entered into crude purchase contracts. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

20 CASH AND CASH EQUIVALENTS

	2017 RM'000	2016 RM'000
Deposits with licensed banks	310,000	328,900
Bank balances	202,907	26,712
Less: Restricted cash	(20,021)	(11,096)
	492,886	344,516

The deposits held at call with banks earn interest at a rate of 3.2% (2016: 3.17%) and matured on 2 January 2018 (2016: 3 January 2017). Included within bank balances is an amount held in a debt service accrual account of RM10,021,000 (2016: RM11,096,000), as required by the new term loan agreements and RM10,000,000 (2016: RM nil) security deposit placed with a local licensed bank for trade facilities.

21 SHARE CAPITAL

	2017 RM'000	2016 RM'000
Authorised 300,000,000 units of ordinary shares		
At 1 January	300,000	300,000
Transition to no authorised share capital regime on 31 January 2017 under the Companies Act 2016	(300,000)	–
At 31 December	–	300,000
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 PERFORMANCE SHARE PLAN (PSP) FROM ROYAL SHELL DUTCH SHELL PLC (RDS)

Prior to the acquisition of 51% of the issued and paid up share capital of the Company by MHIL from SOHL, performance share plans ("PSP") were awarded to eligible employees based on their sustained performance and formed part of their remuneration package. Nominated employees were awarded a conditional notional number of RDS shares. A number of real shares may be transferred to them depending on the outcomes of prescribed performance conditions over a three-year period beginning on January 1 of the award year.

The purchases of shares were originally funded by RDS, which was then recovered from those entities in which the services were provided. These were effectively remuneration costs which were treated the same as any other remuneration cost.

All PSP initially funded by RDS had been repaid by the Company to RDS in the previous financial year.

23 RETAINED EARNINGS

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

24 OTHER RESERVES

(a) Cash flow hedge

The cash flow hedge 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.

	2017 RM'000	2016 RM'000
At 1 January	–	–
Fair value loss	(2,272)	–
Income tax relating to other components of other comprehensive income	545	–
At 31 December	(1,727)	–

(b) Exchange translation reserves

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

25 TRADE AND OTHER PAYABLES

	2017 RM'000	2016 RM'000
Trade payables	134,367	278,935
Accruals for crude oil and petroleum products	366,613	245,244
Sundry accruals	44,517	48,663
Accruals for consumables and services	8,526	19,189
Accruals for capital expenditure	33,274	50,323
GST payable	–	9,525
	587,297	651,879

The Company's trade payables are non-interest bearing, unsecured, except for a balance amounting to RM232,710,000 (2016: RM240,270,818) 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 (2016: 30 to 45 days).

26 AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY

As at 31 December 2017, amounts owing to immediate holding company is unsecured, interest free and repayable on demand. The Directors regard Malaysia Hengyuan International Limited ("MHIL") as the Company's immediate holding company following the acquisition of 51% of the issued and paid-up capital of the Company by MHIL on 22 December 2016.

Following the acquisition of 51% of the issued and paid-up capital of the Company by MHIL from SOHL on 22 December 2016, all balances with companies affiliated to Royal Dutch Shell Plc had been classified within trade and other receivables/payables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

27 BORROWINGS

	2017 RM'000	2016 RM'000
Term loans (secured)		
- Term Loan I	721,862	884,529
- Term Loan II	483,146	532,384
	1,205,008	1,416,913
Less: Amount repayable within 12 months	(79,103)	(87,324)
Amount repayable after 12 months	1,125,905	1,329,589
The remaining maturities of the borrowings are as follows:		
Within 1 year	79,103	87,324
More than 1 year and less than 2 years	126,268	85,644
More than 2 years and less than 5 years	999,637	1,243,945
	1,205,008	1,416,913

As at 31 December 2017 and 31 December 2016, the Company does not have any unsecured borrowings.

The Company obtained a 5-year USD240,000,000 term loan facility in 2011 and a RM450,000,000 term loan in 2015. Both term loans required full repayment of the outstanding balance in the event the shareholding of SOHL fell below 51% of the issued and paid up share capital of the Company.

On 22 December 2016, the Company refinanced all of its outstanding term loans and revolving credit balance on that date pursuant to the terms of the loan agreements following the completion of the share sale between SOHL and MHIL, using new term loan facilities that were drawdown on the same date.

Details of these new term loans are set out below:

USD200,000,000 Term Loan I

This loan was fully drawdown in the previous financial year. It is repayable in half yearly instalments, with the first instalment falling due on 21 June 2017. The principal is repayable in the following tranches:

- 10% of the principal amount in the first 3 consecutive years from the first utilisation date.
- 20% of the principal amount repayable in the 4th year.
- Balance principal amount repayable in year 5.

The loan requires repayment of the outstanding balance in the event that MHIL cease to hold, directly or indirectly, beneficial ownership of 51% or more of the share capital of the Company.

The loan is subject to interest at LIBOR + 3.5% per annum;

27 BORROWINGS (continued)

This facility is secured by:

- A corporate guarantee by Shandong Hengyuan Petrochemical Company Limited, an intermediate holding company;
- A first legal charge over the shares of MHIL in the Company;
- A first legal charge under the National Land Code 1965 over all the real estate of the Company;
- A debenture creating first fixed and floating charges over all present and future assets and undertakings of the Company;
- A first legal charge and absolute assignment over all the present and future rights, interests and benefits of the Company in and to the Product Offtake Agreement with two customers and the Joint Facilities Operating Agreement with another party and all project accounts including revenue accounts and debt service accrual account;
- A legal charge over the hydrocarbon assets and receivables of the Company; and
- A first legal charge and absolute assignment over all the present and future rights, interests and benefits of the Company in and to the Crude Oil Supply Agreement with a vendor.

USD150,000,000 Term Loan II

The Company drew down USD120,119,093 of this term loan in the previous financial year. The loan is repayable in half yearly instalments, with the first instalment falling due on 21 June 2019. The principal is repayable in the following tranches:

- 10% of the principal amount in year 3
- 20% of the principal amount in year 4
- 70% of the principal amount in year 5

The Company is allowed to draw on this facility up to the lesser of USD150,000,000 and an amount equivalent to 85% of cash deposits placed by Shandong Hengyuan Petrochemical Company Limited (an intermediate holding company), with the lender.

The loan is subject to interest at LIBOR + 2.0% per annum.

The effective interest rates of the Company's term loans at the end of the reporting period ranged from 3.79% to 5.29% (2016: 3.62% to 5.27%) per annum.

The fair value of borrowings outstanding as at 31 December 2016 and 31 December 2017 approximated its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

28 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:

	2017 RM'000	2016 RM'000
As at 1 January	-	-
Credited/(charged) to profit or loss (Note 10):		
- property, plant and equipment	(20,757)	(88,870)
- unrealised foreign exchange	(775)	-
- derivative financial assets	(668)	-
- inventories	(22)	(1,180)
- trade receivables	332	(182)
- unused tax losses	(29,529)	87,786
- other payables and accruals	4,785	2,826
- derivative financial liabilities	3,000	-
- performance share plan	-	(380)
	(43,634)	-
Credited to other comprehensive income (Note 24)		
- cash flow hedges	545	-
Effect of exchange rate changes	1,047	-
As at 31 December	(42,042)	-
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	(106,592)	(90,728)
- unrealised foreign exchange	(732)	-
- derivative financial assets	(839)	-
	(108,163)	(90,728)
Offsetting	66,121	90,728
As at 31 December (after offsetting)	(42,042)	-
Deferred tax assets (before offsetting):		
- unused tax losses	54,981	87,786
- inventories	89	116
- other payables and accruals	7,184	2,826
- derivative financial liabilities	3,553	-
- trade receivables	314	-
	66,121	90,728
Offsetting	(66,121)	(90,728)
As at 31 December (after offsetting)	-	-

28 DEFERRED TAXATION (continued)

The amount of deferred tax assets which have not been recognised (stated at gross amounts) are as follow:

	2017 RM'000	2016 RM'000
Tax losses carried forward	–	651,317
Unabsorbed reinvestment allowance	–	130,245

The benefits of unutilised tax losses and reinvestment allowances can be carried forward indefinitely and will be obtained when the Company derives future assessable income of a nature and of an amount sufficient for these carried forward tax losses, and reinvestment allowance to be utilised respectively.

29 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.

Prior to the acquisition of 51% of the issued and paid up share capital of the Company by MHIL from SOHL, related parties of the Company comprised of Royal Dutch Shell Plc (“RDS”) and its related companies. Subsequent to the acquisition of the Company by MHIL from SOHL, 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.

	2017 RM'000	2016 RM'000
Transactions with affiliates of Shandong Hengyuan Petrochemical Company Limited:		
(a) Expenses:		
(i) Technical advisory charges	(7,629)	–
(ii) Central management and administrative charges	(7,417)	–

Transactions with affiliates of Royal Dutch Shell Plc:

(a) Income:		
(i) Sale of refined products to subsidiaries of RDS	–	7,992,712
(ii) Tariff revenue on the use of properties/facilities from subsidiaries of RDS	–	17,405
(iii) Intellectual property buyout from subsidiaries of RDS	–	21,640

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

29 SIGNIFICANT RELATED PARTIES DISCLOSURES (continued)

Transactions with affiliates of Royal Dutch Shell Plc: (continued)

	2017 RM'000	2016 RM'000
(b) Expenses:		
(i) Purchase of crude and products from subsidiaries of RDS	–	(7,605,245)
(ii) Central management and administrative charges by subsidiaries of RDS	–	(53,570)
(c) Refinery process licence fee charged by a subsidiary of RDS	–	(11,210)

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.

	2017 RM'000	2016 RM'000
Compensation for key management personnel:		
- salaries, bonus and allowances	4,898	5,298
- fees	928	421
- defined contribution plan	270	362
- benefits in kind	–	15
- shared based payments	–	74

30 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.

31 CAPITAL COMMITMENTS

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

	2017 RM'000	2016 RM'000
Approved and contracted for	542,382	20,705
Approved but not contracted for	204,579	30,451

32 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.

33 FINANCIAL INSTRUMENTS BY CATEGORY

	2017 RM'000	2016 RM'000
Financial assets		
Financial assets measured at fair value through profit or loss		
- Derivative financial assets	3,498	–
Loans and receivables at amortised cost		
- Trade receivables	1,081,278	950,686
- Other receivables excluding prepayment and statutory assets	3,582	29,610
- Deposit with licensed banks	310,000	328,900
- Bank balances	202,907	26,712
	1,597,767	1,335,908
Total	1,601,265	1,335,908
Financial liabilities		
Financial liabilities measured at fair value through profit or loss		
- Derivative financial liabilities	14,812	–
Other financial liabilities at amortised cost		
- Trade and other payables excluding statutory liabilities	586,705	642,354
- Amounts due to holding company	14,200	–
- Borrowings	1,205,008	1,416,913
	1,805,913	2,059,267
	1,820,725	2,059,267

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 (continued)

34 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 is payable on 17 April 2018 to shareholders registered on the Record of Depositors at the close of business on 20 March 2018. These financial statements do not reflect the interim dividend which will be accounted for in the financial year ending 31 December 2018.

The Company did not declare any dividend for the financial year ended 31 December 2016.

35 EVENTS OCCURRING AFTER THE REPORTING DATE

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.

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 16 April 2018.

COMPANY PROPERTIES

AS AT 31 DECEMBER 2017

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	53 years	01.01.1991	1,077		1,965	3,042
2	Freehold	Lot 3 HS(D) 1310 Jln Pantai Port Dickson	6,284,186	Refinery	54 years	01.01.1991	22,194	1,271	42,021	65,486
3	Freehold	Lot 138 GRN 51925 Port Dickson	39,115	Oil Spill Response Centre	53 years	01.01.1991	262		333	595
4	Freehold	Lot 798 GM 3203 Kg Arab Port Dickson	49,955	Tank Farm	29 years	01.01.1991	140			140
5	Freehold	Lot 196 GM 3208 Kg Gelam Port Dickson	242,845	Reserved Land	30 years	01.01.1991	687			687
6	Freehold	Lot 195 GM 3207 Kg Gelam Port Dickson	249,389	Reserved Land	30 years	01.01.1991	694			694
7	Freehold	PT 1369 HSD 35655 Port Dickson	1,725,885	Reserved Land, Tank Farm	31 years	01.01.1991	5,666			5,666
8	Freehold	PT 1370 HSD 35656 Port Dickson	378,384	Reserved Land, TA Office	31 years	01.01.1991	1,242		330	1,572
9	Freehold	PT 1371 HSD 35657 Port Dickson	132,030	Reserved Land	31 years	01.01.1991	433			433
10	Freehold	PT 10747 HSD 35658 Port Dickson	205,558	Reserved Land	31 years	03.09.1991	594			594
11	Freehold	Lot 12284 & 12290 GM 1961, GM 3201 Port Dickson	112,052	Refinery	22 years	31.08.2000	480			480
12	Freehold	Lot 596 GRN 244911 Port Dickson	100,826	Tank Farm	22 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	20 years	31.08.2000	1,259			1,259
14	Freehold	Lot 950 GM 2721 Port Dickson	104,819	Reserved Land	21 years	31.08.2000	727			727

01

COMPANY PROPERTIES

AS AT 31 DECEMBER 2017

02

03

04

05

OTHER INFORMATION

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	21 years	31.08.2000	1,216			1,216
16	Freehold	Lot 834 GRN 70791 Port Dickson	353,110	Reserved Land	22 years	31.08.2000	1,705			1,705
17	Freehold	Lot 6674 GM 2774 Port Dickson	97,726	For Pipeline To Jetty	28 years	01.01.1991	585			585
18	Freehold	Lot 1323 GM 3199 Port Dickson	178,595	For Pipeline To Jetty	28 years	01.01.1991	907			907
19	Freehold	Lot 6671 GM 2771 Port Dickson	84,249	For Pipeline To Jetty	28 years	01.01.1991	466			466
20	Freehold	Lot 6672 GM 3195 Kg Gelam Port Dickson	59,395	For Pipeline To Jetty	28 years	01.01.1991	359			359
21	Freehold	Lot 192 GM 3206 Kg Gelam Port Dickson	148,101	For Pipeline To Jetty	29 years	01.01.1991	443			443
22	Freehold	Lot 247 GM 3202 Port Dickson	120,330	For Pipeline To Jetty	29 years	01.01.1991	332			332
23	Freehold	Lot 191 GM 3205 Kg Gelam Port Dickson	134,495	For Pipeline To Jetty	30 years	01.01.1991	620			620
24	Freehold	Lot 190 GM 3204 Kg Gelam Port Dickson	131,770	For Pipeline To Jetty	30 years	01.01.1991	577			577
25	Freehold	Lot 909 GRN 69309 Port Dickson	86,768	For Pipeline To Jetty	26 years	01.01.1991	431			431
26	Freehold	Lots 178 – 180 GM 3196 – 3198 Port Dickson	448,673	For Pipeline To Jetty	26 years	01.01.1991	2,172			2,172
27	Freehold	Lot 1300 GM 3194 Kg Gelam Port Dickson	58,200	For Pipeline To Jetty	27 years	01.01.1991	403			403
28	Freehold	Lot 3948 – 3951 GM 2619 – 2622 Port Dickson	5,042	Refinery Buffer Zone	21 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	21 years	30.04.2001	344			344
30	Freehold	Lot 4961 – 4968 GM 475 – 482 Port Dickson	34,789	Refinery Buffer Zone	21 years	30.04.2001	1,268			1,268
31	Freehold	Lot 5402 – 5407 GM 345 – 350 Port Dickson	21,883	Refinery Buffer Zone	21 years	30.04.2001	898			898
32	Freehold	Lot 10533 GM 1653 Kg Gelam Port Dickson	2,002	Refinery Buffer Zone	24 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	24 years	31.08.2000	398			398
34	Freehold	Lot 12104 GM 2859 Kg Gelam Port Dickson	570	Refinery Buffer Zone	24 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	53 years	01.01.1991	336			336
36	Freehold	Lot 764 GRN 65945 Port Dickson	9,009	Reserved Land	54 years	01.01.1991	61			61
37	Freehold	Lot 12086 GM 3200 Port Dickson	62,614	Reserved Land	10 years	28.03.2008	600			600
38	Freehold	Lot 9060 GM 2720 Port Dickson	9,149	Reserved Land	54 years	01.01.1991	4			4
39	Leasehold	PT 9451 HSD 29075 Mukim Port Dickson	2,822,620	Jetty Land	25 years	10.04.2004	1,783		494	2,277
15,067,542							52,381	1,271	45,143	98,795

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 2018

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	
	Malaysia & Foreign	%	Malaysia & Foreign	%
1 – 99	860	5.321	5,833	0.002
100 – 1,000	6,474	40.060	4,460,951	1.487
1,001 – 10,000	7,263	44.942	26,789,639	8.930
10,001 – 100,000	1,391	8.607	38,273,501	12.758
100,001 – 14,999,999 (*)	172	1.064	77,401,074	25.800
15,000,000 and above (**)	1	0.006	153,069,002	51.023
Total	16,161	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	4,800,000	1.600
3	Foo Khen Ling	4,398,000	1.466
4	Kenanga Investment Bank Berhad lvt (EDSP-NAGA 8-DO)	3,643,100	1.214
5	CIMB Group Nominees (Tempatan) Sdn Bhd CIMB Bank Berhad (EDP 2)	3,516,700	1.172
6	Maybank Investment Bank Berhad lvt (9)	2,184,000	0.728
7	Tan Kah Hock	2,107,000	0.702
8	RHB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Ashfak Ahmad Bin Alarakha	1,863,700	0.621
9	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank For Deva Dassan Solomon (My1091)	1,650,000	0.550
10	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Helina Shanti Solomon (7001761)	1,426,000	0.475
11	HSBC Nominees (Asing) Sdn Bhd JPMCB NA For New York State Common Retirement Fund	1,278,600	0.426
12	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	1,265,947	0.422

No.	Name	Shareholdings	%
13	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Inbamanay A/P M J Arumanayagam (8061712)	1,100,000	0.367
14	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Deva Dassan Solomon (8041850)	1,010,000	0.337
15	Cartaban Nominees (Asing) Sdn Bhd Exempt An For State Street Bank & Trust Company (West CLT OD67)	1,009,900	0.337
16	Ashfak Ahmad Bin Alarakha	978,500	0.326
17	RHB Nominees (Tempatan) Sdn Bhd Ashfak Ahmad Bin Alarakha	970,000	0.323
18	Wong Siew Fah	910,000	0.303
19	RHB Investment Bank Berhad IVT "SW BOOK 1"	890,500	0.297
20	Citigroup Nominees (Asing) Sdn Bhd CBNY For DFA Emerging Markets Small Cap Series	846,300	0.282
21	Citigroup Nominees (Asing) Sdn Bhd UBS AG For Arrowstreet International Equity - Alpha Extension Fund	823,600	0.275
22	Eletechnics Sdn Bhd	800,000	0.267
23	Malaysia Nominees (Tempatan) Sendirian Berhad Lee Foundation, States of Malaya (00-00197-000)	790,000	0.263
24	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Selina Sharmalar Solomon (8112136)	770,000	0.257
25	Citigroup Nominees (Asing) Sdn Bhd CBNY For Emerging Market Core Equity Portfolio DFA Investment Dimensions Group Inc	751,800	0.250
26	UOB Kay Hian Nominees (Asing) Sdn Bhd Exempt An For UOB Kay Hian Pte Ltd (A/C Clients)	725,750	0.242
27	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Deva Dassan Solomon	711,400	0.237
28	Law King Yong	700,000	0.233
29	Reuben Tan Cherh Chung	700,000	0.233
30	HSBC Nominees (Asing) Sdn Bhd TNTC For Stichting Blue Sky Active Equity Emerging Markets Global Fund	692,000	0.230
	Total	196,381,799	65.460

ANALYSIS OF SHAREHOLDINGS

AS AT 19 MARCH 2018

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	Lim Tau Kien	0	0.00
4	Alan Hamzah Sendut	0	0.00
5	Fauziah Hisham	0	0.00
6	Liang Kok Siang	0	0.00
7	David Keat	0	0.00
Total		0	0.00

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

DIRECTORS' MEETING ATTENDANCE FOR THE FINANCIAL YEAR ENDED 2017

BOARD AND GENERAL MEETINGS

Name of Directors	Board Meetings	General Meetings
Wang YouDe	7/7	3/3
Wang ZongQuan	7/7	3/3
Lim Tau Kien ^(a)	3/3	–
Alan Hamzah Sendut ^(a)	3/3	–
Fauziah Hisham ^(b)	3/3	–
Liang Kok Siang ^(b)	3/3	–
Martinus Joseph Marinus Aloysius Stals (Maarten Stals) ^(c)	7/7	3/3
Datuk Yvonne Chia ^(d)	4/4	3/3
Heng Heyok Chiang @ Heng Hock Cheng ^(d)	4/4	2/3
Datuk Zainun Aishah binti Ahmad ^(d)	4/4	3/3
Sun JianYun ^(d)	4/4	3/3
Dato' Seri Talaat Bin Haji Husain ^(e)	3/4	0/3
David Lau Nai Pek ^(e)	3/4	2/3

Total Number of Board Meetings in 2017: 7

Total Number of General Meetings: 3

Notes:

- (a) Lim Tau Kien and Alan Hamzah Sendut were appointed as Directors of HRC on 25 May 2017.
- (b) Fauziah Hisham and Liang Kok Siang were appointed as Directors of HRC on 1 June 2017.
- (c) Maarten Stals resigned as Managing Director of HRC with effect from 1 March 2018.
- (d) Datuk Yvonne Chia, Heng Heyok Chiang @ Heng Hock Cheng, Datuk Zainun Aishah binti Ahmad and Sun JianYun resigned as Directors of HRC on 1 June 2017.
- (e) Dato' Seri Talaat bin Haji Husain and David Lau Nai Pek retired as Directors of HRC on 24 May 2017.

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES**BOARD AUDIT COMMITTEE MEETINGS**

Name of Members	Attendance
Alan Hamzah Sendut (Chair)	2/2
Lim Tau Kien	2/2
Fauziah Hisham	2/2
Liang Kok Siang	2/2
Wang ZongQuan ^(f)	1/1
Datuk Yvonne Chia ^(g)	5/5
Heng Heyok Chiang @ Heng Hock Cheng ^(g)	5/5
Datuk Zainun Aishah binti Ahmad ^(g)	5/5
Dato' Seri Talaat Bin Haji Husain ^(g)	4/5
David Lau Nai Pek ^(g)	4/5

Total number of BAC meetings in 2017: 7

Notes:

The attendance records of each Director reflects the number of meetings attended in the year 2017 over the number of meetings held during his / her tenure as a BAC member.

(f) Wang ZongQuan resigned as a member of the BAC on 24 November 2017.

(g) Datuk Yvonne Chia, Heng Heyok Chiang @ Heng Hock Cheng, Datuk Zainun Aishah binti Ahmad, Dato' Seri Talaat bin Haji Husain and David Lau Nai Pek resigned / retired as members of the BAC on the date of their resignation / retirement as Directors.

BOARD NOMINATING AND REMUNERATION COMMITTEE

The Nominating Committee (**NC**) and Remuneration Committee (**RC**) of HRC were combined to become a single committee known as the Board Nominating and Remuneration Committee on 5 December 2017. Lim Tau Kien, Wang YouDe and Fauziah Hisham were appointed as members of the BNRC on the same date.

Name of Members	NC Attendance	RC Attendance
Lim Tau Kien (Chair)	1/1	–
Wang YouDe	3/3	2/2
Fauziah Hisham ^(h)	–	–
Alan Hamzah Sendut ⁽ⁱ⁾	–	–
Liang Kok Siang ^(j)	–	–
Dato' Seri Talaat Bin Haji Husain ^(k)	2/2	2/2
Datuk Zainun Aishah binti Ahmad ^(k)	3/3	2/2

Total number of Nominating Committee meetings in 2017: 3

Total number of Remuneration Committee meetings in 2017: 2

Notes:

The attendance records of each Director reflects the number of meetings attended in the year 2017 over the number of meetings held during his / her tenure as a BNRC member.

- (h) Fauziah Hisham was appointed as the RC Chair on 1 June 2017. No RC meetings were held during her tenure as RC Chair. She was appointed as a member of the BNRC upon its establishment on 5 December 2017.
- (i) Alan Hamzah Sendut was appointed as a member of the NC on 1 June 2017. He resigned as a member of the NC when the BNRC was established on 5 December 2017. No NC meetings were held during his tenure as a member of the NC.
- (j) Liang Kok Siang was appointed as a member of the RC on 1 June 2017. He resigned as a member of the RC when the BNRC was established on 5 December 2017. No RC meetings were held during his tenure as a RC member.
- (k) Dato' Seri Talaat bin Haji Husain and Datuk Zainun Aishah binti Ahmad retired / resigned as members of the NC and RC on the date of their retirement / resignation as Directors.

BOARD RISK MANAGEMENT COMMITTEE

Name of Members	Attendance
Wang ZongQuan (Chair)	1/1
Alan Hamzah Sendut	1/1
Liang Kok Siang	1/1

The BRMC was established on 29 November 2017 and held its first meeting on 30 November 2017.

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 2017 are set out below:

<p>1 January 2017 to 31 March 2017</p>	<ul style="list-style-type: none"> • The Inside Story of the Annual Report: What Directors Must Know (Mandarin), organised by Bursatra Sdn Bhd • Boards and C-Level Executives: Balancing Trust and Tension, organised by Malaysian Institute of Corporate Governance (MICG) • ACGA's CG Watch 2016: Ecosystems Matter, organised by The Iclif Leadership and Governance Centre (ICLIF) and the Malaysian Directors Academy (MINDA)
<p>1 April 2017 to 30 June 2017</p>	<ul style="list-style-type: none"> • Mandatory Accreditation Programme for Directors of Public Listed Companies, organised by ICLIF • The New Malaysian Code on Corporate Governance - How To Walk The Talk?, organised by MICG • Assessment of the Board, Board Committees and Individual Directors – Taking Stock of Performance, organised by MICG • Briefing on the New Companies Act 2016 by Suruhanjaya Syarikat Malaysia (Companies Commission of Malaysia), organised by UEM Group Berhad
<p>1 July 2017 to 30 September 2017</p>	<ul style="list-style-type: none"> • Digital Technology in the Capital Market – What's Coming Your Way, organised by the Securities Industry Development Corporation (SIDC) • Mandatory Accreditation Programme for Directors of Public Listed Companies • Financial Institutions Directors' Education Programme, organised by ICLIF • CEP Training Programme on Oil Price and Margins Risk Management, Foreign Exchange Market Outlook and MOPS Price Assessment Methodology, organised by the Company • Capital Market Conference 2017, organised by the Malaysian Institute of Accountants (MIA) • Boards in the Digital Economy, organised by SIDC
<p>1 October 2017 to 31 December 2017</p>	<ul style="list-style-type: none"> • Governance & Leadership in Technology Disruption, organised by MICG • 2018 Budget: Implications to the Malaysian Economy and Capital Market, organised by SIDC in collaboration with Hong Leong Investment Bank Berhad • Corporate Board Symposium 2017, organised by MIA The Corporate Intelligence: A Director's Understanding & Access to Evidence-Based Foresight • The Corporate Intelligence: A Director's Understanding & Access to Evidence-Based Foresight, organised by MINDA

DIRECTORS' REMUNERATION FOR THE FINANCIAL YEAR ENDED 2017

Name of Members	Salary, Bonus and Salary Related Benefits (RM '000)	Director's Fees (RM '000)	Attendance and other remuneration (RM '000)	Total (RM '000)
Wang YouDe	–	80	29	109
Wang ZongQuan	–	90	23	113
Lim Tau Kien	–	66	14	80
Alan Hamzah Sendut	–	78	12	90
Fauziah Hisham	–	64	11	75
Liang Kok Siang	–	59	11	70
Martinus Joseph Marinus Aloysius Stals (resigned on 1 March 2018)	1,909	–	–	1,909
Datuk Yvonne Chia (resigned on 1 June 2017)	–	46	17	63
Heng Heyok Chiang @ Heng Hock Cheng (resigned on 1 June 2017)	–	41	15	56
Datuk Zainun Aishah binti Ahmad (resigned on 1 June 2017)	–	46	21	67
Sun JianYun (resigned on 1 June 2017)	–	33	64	97
Dato' Seri Talaat Bin Haji Husain (retired on 24 May 2017)	–	43	12	55
David Lau Nai Pek (retired on 24 May 2017)	–	39	14	53
	1,909	685	243	2,837

Notes:

The Director of the Company were insured against certain liabilities under a Directors' and Officers' liability insurance policy for which the Company paid an aggregate sum of RM60,000.

MATERIAL CONTRACTS

There were no material contracts entered into by HRC involving the interests of Directors, the CEO and the major shareholder either still subsisting at the end of the financial year ended 31 December 2017 or entered into since the end of the previous financial year.

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 general meetings held on 26 May 2016 and 24 May 2017. 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 2017 are set out below.

No	Name	Type of Transaction	Total value of actual transactions FY 2017 (RM)
1	Shell Malaysia Trading Sendirian Berhad	Sale of petroleum products by HRC Service charge by HRC for the operation of multi product pipeline feeder facilities Lease of HRC's lubricant oil blending plant facilities Service charge by HRC for the provision of throughput services	8,049,846,126
		Purchase of petroleum products by HRC	419,606
2	Shell Timur Sdn Bhd	Sale of petroleum products by HRC	1,886,188,655
3	Shell International Eastern Trading Company (SIETCO) SIETCO is a registered business of Shell Eastern Trading (Pte) Ltd	Sale of petroleum products by HRC	334,935,891
		Purchase of crude oil by HRC Purchase of petroleum products by HRC Provision of oil and oil products price risk management services to HRC	8,324,727,497
4	Shell Eastern Trading (Pte) Ltd, trading under the name and style of Shell Eastern Chemicals (Singapore)	Sale of petroleum products by HRC	326,005,614

No	Name	Type of Transaction	Total value of actual transactions FY 2017 (RM)
5	Shell Global Solutions International B.V.	Provision of general business and technical support services to HRC	11,167,038
		Provision of licensing and project design services and catalyst supply to HRC	1,989,960
6	Shell Global Solutions (Malaysia) Sdn Bhd	Provision of general business and technical support services to HRC	7,206,933
7	Infineum Singapore Pte Ltd	Purchase of chemical products by HRC	3,393,261
8	Shell Malaysia Limited	Provision of central management and administrative services to HRC	275,707
9	Malaysia Hengyuan International Limited	Provision of central management, business support and administrative services to HRC	7,417,000
		Provision of technical advisory and consultancy services and research and development advisory services to HRC	7,629,000
10	Mercuria Energy Trading Pte Ltd	Purchase of crude oil and petroleum products by HRC	20,841,701
		Sale of petroleum products by HRC	

Notes:

- (a) As disclosed in the Circular to Shareholders dated 9 May 2017, the entities in Items 1-8 are part of the Shell group of companies (Shell Group). The Shell Group is deemed by HRC as parties related to HRC via Maarten Stals, who was the Managing Director of HRC and an employee of Shell Global Solutions (Malaysia) Sdn Bhd, seconded to the Company. Shell Global Solutions (Malaysia) Sdn Bhd and these companies have a common ultimate holding company, which is Royal Dutch Shell plc. Maarten Stals resigned as the Managing Director of HRC on 1 March 2018. Pursuant to the Listing Requirements, the Company deems the Shell Group as a party related to HRC until 1 September 2018.
- (b) Malaysia Hengyuan International Limited is a major shareholder of the Company.
- (c) For the period of 24 May 2017 until 1 December 2017, the Company deemed Mercuria Energy Trading Pte Ltd as a party related to HRC via Sun JianYun, who was a non-executive Director of HRC and an employee of Mercuria (China) Investment Co. Ltd. Mercuria Energy Trading Pte Ltd and Mercuria (China) Investment Co. Ltd. are both indirect wholly owned subsidiaries of Mercuria Energy Group Limited. Sun JianYun resigned as a Director of HRC on 1 June 2017. Pursuant to the Listing Requirements, Mercuria Energy Trading Pte Ltd ceased to be a related party of HRC on 1 December 2017.

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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)

I.C./Passport/Company 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 Fifty-Ninth Annual General Meeting of Hengyuan Refining Company Berhad (the Company) will be held at **Ballroom 2, Sime Darby Convention Centre, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur on Thursday, 24 May 2018 at 10.00 a.m.** and at any adjournment thereof.

No.	Resolutions	For	Against
Ordinary Business			
1.	To re-elect Wang ZongQuan as Director.		
2.	To re-elect Mr Alan Hamzah Sendut as Director.		
3.	To re-elect Ms Lim Tau Kien as Director.		
4.	To re-elect Puan Fauziah Hisham as Director.		
5.	To re-elect Mr Liang Kok Siang as Director.		
6.	To re-appoint Messrs PricewaterhouseCoopers PLT as Auditors of the Company and to authorise the Directors to fix their remuneration.		
Special Business			
7.	To approve payment of Non-Executive Directors' fees and benefits of up to RM2,900,000 for the period from 1 January 2018 until 30 June 2019.		
8.	Authority to Allot and Issue Shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
9.	Proposed Authority for Share Buy-Back.		
10.	Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature.		
11.	Requisitioned resolution to approve a final single tier dividend of 43.5 cents per share in respect of the financial year end 31 December 2017.		
12.	Requisitioned resolution to approve a formal dividend policy of allocating at least 15% of the Company's profit after tax, excluding exceptional items to be distributed to its shareholders as dividend payment.		

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 _____ 2018

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

Signature/ Common Seal of Shareholder(s)

Contact No. _____

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

NOTES:-

1. Pursuant to Section 334 of the Companies Act 2016, a member of a company shall be entitled to appoint another person as his proxy to exercise all or any of his rights to attend, participate, speak and vote at a meeting of members of the company. A member may appoint more than one (1) 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 who 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 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 form 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 2018.

