
KELANA DUA
Safetyware


# GROWING A CAPABLE AND HIGHLY MOTIVATED TEAM

We continue to improve our employee value proposition through Rewards and Recognition, People Development, Engagement and Communications, and Prioritisation initiatives.

# CORPORATE GOVERNANCE STATEMENT

The Board is responsible to ensure that our Company achieves a high level of corporate governance. This is integral to preserve shareholders' trust and to enhance the value of our Company. In carrying out this responsibility, the Board of Directors confirms that for the financial year under review, our Company has applied the main principles and relevant recommendations as set out in the Malaysian Code on Corporate Governance 2012 ("MCCG 2012" or the "CG Code").

At the core of our corporate governance framework, our Company prescribes to the key legislations and guidelines applicable to a public company listed on Bursa Malaysia comprising the Companies Act, 1965 (subsequently superseded by the Companies Act, 2016, effective from 31 January 2017), the Main Market Listing Requirements ("Listing Requirements") and the CG Code. Since 2016, our Company has been admitted to the FTSE4Good Bursa Malaysia Index which sets high standards for companies with environmental, social and governance practices.

The Board has approved this statement on 14 April 2017 and is satisfied that our Company is in compliance with the principles and recommendations outlined in the CG Code.

## SUMMARY OF KEY ACTIVITIES OF THE BOARD DURING FINANCIAL YEAR 2016

The Board met eight (8) times during the financial year 2016.

We are pleased to provide a high level summary of key matters deliberated by the Board during the course of the year:

1. The Board has the overall responsibility for corporate governance and strategic direction of our Company and is entrusted to exercise reasonable and proper care in utilising our Company's resources for the best interests of its shareholders and to safeguard our Company's assets. Our Company remains committed to our objectives to deliver sustainable excellence in business performance.
2. We allocated more time and effort for discussions on the transition of the majority shareholder which included setting robust long term commercial agreements, management continuity, as well as financial and cash support. The Board has carried out extensive reviews into these contractual arrangements to secure the continued commercial performance of our Company ranging from significant product sales contracts, crude purchase contracts and refinancing agreements. Subject matter experts were also engaged to provide industry relevant perspectives on these arrangements.
3. The IT systems of our Company, which were previously integrated into the Shell group system, were transitioned into independent applications and systems to ensure continued control, run and operations.
4. The Board also oversaw and ensured that the internal controls set up to maintain and manage high corporate governance standards were implemented, and in doing so, frequent updates and information were sought from the management.

In addition to the overall responsibilities, the Board is also guided by the MCCG 2012. The 8 principles of the MCCG 2012 have been adopted by the Board into the 7 principle responsibilities below:

## Seven Principle Responsibilities of the Board

### Succession planning

The Board is notified of appointments and replacements, if any, of senior management. The Nominating Committee monitors the performance and evaluation of the members of the Board with a view of continuous improvement, and planning for succession, as needed.

### Communication with shareholders

The Board is committed to transparent and fair dissemination of information to its shareholders and ensures that all necessary disclosures are adequately made in a timely fashion. In addition, the Board ensures that ample time is allocated during the general meeting for shareholders to pose questions or provide observations and feedback to them.

### Review the adequacy and integrity of the Company's internal control systems

The Audit Committee, external auditors, internal audit function and the assurance plan developed by management form part of the review of the internal controls of the Company. Further information can be found in the Directors' Statement of Risk Management and Internal Control on pages 83 to 85 of this Report.

### Reinforce Independence

The Board maintains its independence in overseeing the business activities of the Company to ensure that any related or connected party transactions follow the due process to support business performance. Independent directors are critical to this process as they bring independent and objective judgement to the Board and this mitigates risks arising from conflict of interests or undue influence from interested parties.

### Reviewing and adopting a strategic plan for the Company

The Board approves the business plan for the Company on an annual basis, and in doing so considers the operational and financial targets for the Company and ensures that the assumptions and projections used by management are valid and reflective of the Company's short-term and long-term perspectives.

In addition, the Board proactively and strategically reviews the Company's long-term options and ensures thorough analysis and relevant information are received by the Board for its deliberation. The Board has provided a mandate to the management and its advisers to carry out or commission studies so that holistic and complete information on the Company's long-term strategy can be formulated and presented to the Board. In order to ensure that due and necessary inquiries can be made, the Board is provided with sufficient time to digest and consider such strategic reviews.

### Overseeing the conduct of the Company's business

At each quarter, the Managing Director will present his report on the current performance of the Company which includes an update on health, safety, security and environment issues, overview of operational performance and production, business improvement initiatives, refining margins, related party transactions, as well as any business integrity matters (including whistle blowing cases). The overall performance of the Company is measured against a pre-approved scorecard on an annual basis.

Other key members of management are also invited to provide in-depth explanations on their respective areas of responsibility highlighted in the report or scorecard.

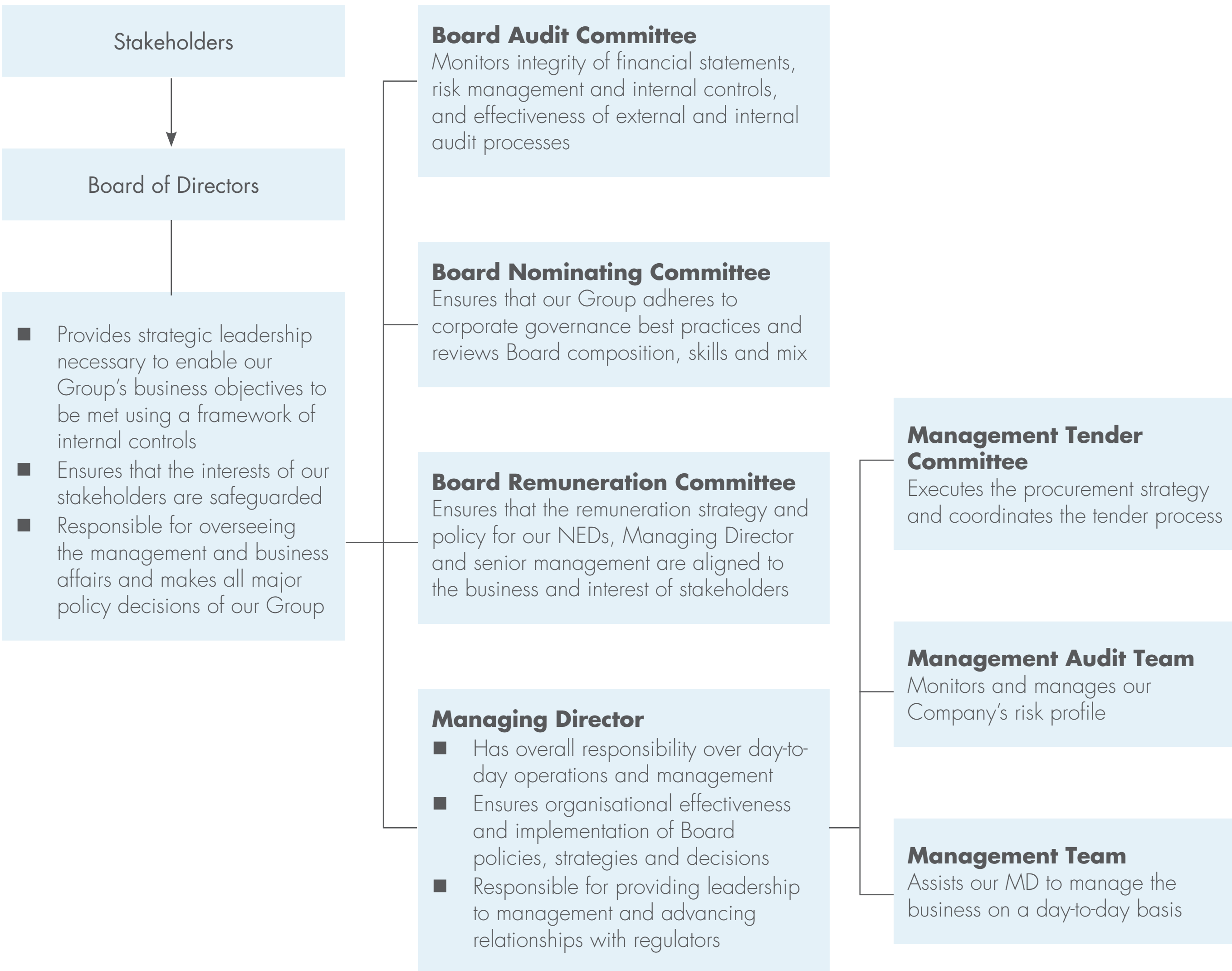
### Identifying principal risks and ensuring the implementation of appropriate internal controls and mitigation measures

The Board through the Board Audit Committee ensures the ongoing effectiveness of audits,internal controls and adequacy of risk management which includes risk identification and mitigation. Further information can be found in the Directors' Statement of Risk Management and Internal Control on pages 83 to 85 of this Report.

# CORPORATE GOVERNANCE STATEMENT

## GOVERNANCE STRUCTURE

The governance structure shared below defines the roles and responsibilities of the Board. The Board Committees are entrusted to look into specific areas such as audit and internal controls, remuneration, nomination of Directors and key officials of the company as well as corporate governance.



## THE BOARD CHARTER

The Board Charter continues to provide reference for Directors in relation to the Board's role, powers, duties and functions. Apart from reflecting elements of best practices and applicable rules and regulations, the Board Charter also outlines processes and procedures for the Board and its Committees in discharging its stewardship effectively and efficiently. The Board Charter is accessible at our Company's website at www.hrc.com.my. Any updates to the Board Charter will be uploaded to the website accordingly. The Board Charter was last reviewed on 14 April 2017.

## BOARD STRUCTURE AND COMPOSITION

During the year in review, our Company continues to be steered by an involved, knowledgeable and dynamic Board of Directors.

A varied mix of experience of the Board members brings different perspectives and enhances the decision-making process. The Board comprises the Chairman, one Executive Director, namely the Managing Director, and Non-Executive Directors, including Independent Directors.


The composition of the Board of Directors is in compliance with paragraph 15.02 of Chapter 15 of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") and the MCCG 2012 which states that the Board must comprise a majority of Independent Directors where the Chairman of the Board is not an Executive Director.

| Period | Number of Executive Directors | Number of Non-Executive Directors | Total Number of Directors |
|---|---|---|---|
| January 1 to December 22 | 1 | 7 | 8 |
| December 22 to December 31 | 1 | 8 | 9 |

During the financial year under review, four (4) new directors were appointed following the share sale completion on 22 December 2016, namely Wang, YouDe; Wang, ZongQuan; Martinus Joseph Marinus Aloysius Stals and Sun, JianYun.They will remain in their respective positions until the 58th Annual General Meeting where they will stand for re-election. Their respective profiles are set out on pages 18, 19, 25 and 26.

The Directors who resigned on the same date were Datuk Iain John Lo, Amir Hamzah bin Abu Bakar and Michael John Carey. The Directors who were due for re-election in 2016 have been assessed by the Nominating Committee and thereafter approved by the Board. The Board recommends the re-election of these Directors to the general meeting.

The details of the current Board of Directors may be found on pages 18 to 26 of the Annual Report.

## DIRECTORS' CODE OF ETHICS

The Directors observe the Directors' Code of Ethics established by the Companies Commission of Malaysia and the Code of Ethics for the Executive Directors and Senior Financial Officers. The Code of Ethics is accessible in our Company's website at www.hrc.com.my. Any updates will be uploaded to the website accordingly.

# CORPORATE GOVERNANCE STATEMENT

## FUNCTIONS RESERVED FOR THE BOARD AND DELEGATED TO MANAGEMENT

### The Chairman and the Board

The roles of the Non-Independent Non-Executive Chairman (the Chairman) and the Managing Director are distinct and separate with their respective responsibilities clearly defined to ensure a balance of power and authority. The Chairman, who has never held the position of Managing Director of our Company, is also the Country Chairman of Shandong Hengyuan Petrochemical Co Ltd (SHPC), and contributes extensive knowledge and experience to the Board. He is responsible for the leadership and management of the Board and for ensuring the Board and its Committees function effectively. He is also responsible for the integrity and effectiveness of the relationship between the Independent Non-Executive Directors and the remaining Directors, steering discussions and deliberations towards clear and transparent outcomes and proper decisions. His active interactions with other industry leaders and excellent relationships with key stakeholders as the Chairman of our Company as well as for SHPC, allows him to provide important insights and meaningful foresight in the strategic planning of our Company.

## THE MANAGING DIRECTOR

The Managing Director is a Shell secondee appointed by SHPC to lead the Company in achieving a smooth transition.

The Managing Director bears overall responsibility for the implementation of the strategies and direction agreed by the Board and the operational management of our Company. His operational responsibilities include plant reliability, safety, profitability, corporate governance and talent development. In addition, the Managing Director has the principal responsibility of reporting, clarifying and communicating pertinent matters relating to day-to-day operations of our Company to the Board. He is assisted by the Management Team whose information are set out on pages 27 to 29.

## INDEPENDENCE

The Independent Non-Executive Directors ("INEDs"), all of whom are respected persons of high calibre and integrity, and experienced business leaders in their own right, play an important role by exercising independent business judgment and objective participation in the proceedings and decision-making processes of the Board. The Board acknowledges and values their independence and objectivity, which is essential to ensure that the interests of other stakeholders, such as the minority shareholders, are properly safeguarded.

To preserve their objectivity, the INEDs do not engage in the day-to-day management of our Company or have personal or business relationships/connections with the Company, which could materially interfere with their independent judgment as defined under paragraph 1.01 of the Listing Requirements and to avoid any conflict of interest possibilities.

The INEDs are appointed for an initial tenure of three (3) years and may be renewed subject to merit and performance assessment. In line with the MCCG 2012, the Board agreed that upon completion of nine (9) years of service, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Non-Executive Director. However, the Board must justify and seek shareholders' approval for extending the tenure of an INED who has served in that capacity for more than 9 years.

Dato' Seri Talaat has served the Board as Independent Non-Executive Director for 10 years on 1 June 2016. Hence, the Board has after conducting an assessment of Dato' Seri Talaat's performance as an Independent Director, recommended him for shareholders' approval to continue to act as INED for another year until June 2018.

## CONFLICTS OF INTEREST

The Company Secretary requires each Director to declare any conflicts of interest on an annual basis and if there is any change during the year, as and when required. The completed Directors' Declarations were reviewed by the Nominating and Remuneration Committees on 14 April 2017 relating to any conflict, remuneration and fees received respectively and the Board is notified of any conflict of interest declaration. Conflicts of interest and gifts and hospitality, if any, received and provided to the Non-Independent Non-Executive Directors are kept under review in accordance with the processes set out in the Code of Conduct of our Company.

## DIRECTORS' TRAINING

Following their appointment to the Board, new Directors receive a comprehensive induction tailored to their individual needs. This includes a visit to the plant and presentations by and meetings with senior management to enable them to build up a detailed understanding of our Company's business and strategy, and the key risks and issues faced. Throughout the year, regular updates on developments in legal matters, governance, commercial risks environment and accounting are provided to Directors. The Board firmly believes in the continuing education of individual Directors consistent with the requirements of paragraph 15.08 of the Listing Requirements. The Board has taken on the onus of reviewing, evaluating and determining the specific and continuous training and the competency development of individual Directors during its meetings resulting in in-house training being carried out in addition to participation in public sessions.

Bursa Securities requires a newly appointed Director to attend the Mandatory Accreditation Programme ("MAP") in full and procure a certificate from the programme organiser approved by Bursa Malaysia to confirm his/her completion of MAP. He/she is required to complete the MAP within four (4) months of his/her appointment.

Mr Heng Hock Cheng who was appointed on 1 April 2016 has completed his MAP training. Chairman Mr Wang, YouDe, Mr Martinus Joseph Marinus Aloysius Stals, Mr Wang, ZongQuan and Mr Sun, JianYun who were appointed on 22 December 2016, have also completed their MAP training.

Seminars, training programmes and conferences attended by the Directors in 2016 and the first quarter of 2017 are summarised as follows:

| Name | Training/Seminar |
|---|---|
| **Wang, YouDe**<br>*(appointed on 22 December 2016)* | 1. Mandatory Accreditation Programme for Directors of Public Listed Companies<br>2. The Inside Story of the Annual Report: What Directors Must Know |
| **Wang, ZongQuan**<br>*(appointed on 22 December 2016)* | 1. Mandatory Accreditation Programme for Directors of Public Listed Companies<br>2. The Inside Story of the Annual Report: What Directors Must Know |
| **Martinus Joseph Marinus Aloysius Stals**<br>*(appointed on 22 December 2016)* | 1. Mandatory Accreditation Programme for Directors of Public Listed Companies<br>2. Directors' Continuous Education Programme ("CEP")* |
| **Dato' Seri Talaat bin Haji Husain** | 1. Effective Board Evaluation – organized by FIDE Forum<br>2. Identify the Right Board Talent - organized by FIDE Forum |
| **Datuk Zainun Aishah binti Ahmad** | 1. Directors' Continuous Education Programme ("CEP")*<br>2. Corporate Governance Breakfast Series (Bursa)<br>■ The Cybersecurity Threats and How Boards should mitigate the Risks |
| **David Lau Nai Pek** | 1. Cyber-Security Briefing, HCL Technologies and Symantec<br>2. Geopolitical Trends and the Global Energy Landscape<br>3. The Fourth Industrial Revolution and sustainable growth: What next?<br>4. How to build or burn trust in an organization<br>5. What will distinguish the Great Boards of tomorrow by Beverly Behan<br>6. Khazanah Megatrends Forum 2016<br>7. Building High Performance Director - Dynamic Board Stewardship (DiBs) 2016<br>8. IATA Airline Industry Leading Practices<br>9. Tower ExChange - Meetup Asia 2016 |
| **Datuk Yvonne Chia** | 1. Directors' Continuous Education Programme ("CEP")*<br>2. Project Finance for Development Financial Institutions, ICLIF<br>3. Ring the Bell – Women Diversity, Bursa Malaysia<br>4. Global Teaching Summit, Transformational Learning and Leadership Framework<br>5. Malaysia Annual Conference 2016 – Digital Economy<br>6. Astro Sustainability, Bursa Malaysia<br>7. New Companies Bill, Hengyuan Refining Company Berhad<br>8. The Journey so far and The Next Steps, Economic and Leadership Forum, Sunway University<br>9. Cyber Security, Standard Chartered Bank<br>10. Geography as Destiny, Khazanah Megatrends Forum<br>11. Asia Advisory Council, University of Nottingham<br>12. Building Lean Enterprise and Innovation Culture, Amazon Cloud Services<br>13. Presentation on Global Entertainment and Media Outlook, PricewaterhouseCoopers<br>14. Technology Disruption and Impact on Media Sector, Citigroup |
| **Heng Hock Cheng**<br>*(appointed on 1 April 2016)* | 1. MISC Director Training Programme<br>2. MISC Annual Planning Forum 2016<br>3. 5th PETRONAS BAC Forum<br>4. Directors' Continuous Education Programme ("CEP")*<br>5. MISC Annual Directors Training 2016 |
| **Sun, JianYun**<br>*(appointed on 22 December 2016)* | 1. Mandatory Accreditation Programme for Directors of Public Listed Companies<br>2. The Inside Story of the Annual Report: What Directors Must Know |

* *Directors' CEP consists of:*

- *Highlights and Key Changes to Companies Act 2016*
- *Security and Terrorism in Malaysia*
- *The Power of Social Media and How It Impacts Our Business*

# CORPORATE GOVERNANCE STATEMENT

### Board Meetings

Board meetings are held at least four (4) times a year scheduled well in advance before the end of the preceding financial year, so that Directors are able to plan ahead. Additional meetings may be convened as and when necessary to consider urgent matters that require the Board's swift consideration. During Board meetings, the Managing Director, and members of the Management team, will table and present comprehensive reports for your Board's consideration, deliberation and direction. The Chairman of the Board Audit Committee, Remuneration Committee and Nominating Committee would inform the Directors at each Board meeting of any salient developments and findings noted by the respective Committees which require the Board's notice, direction or approval.

During 2016, the Board of Directors met eight (8) times, seven (7) times in Kuala Lumpur and one (1) time in Penang.

The Directors have full and unrestricted access to all information pertaining to our Company's business or affairs to enable them to discharge their duties. Written reports on health, safety, security and environment, operational performance and profitability, human resources, business plans and various financial indicators are made available in advance to members of your Board to ensure sufficient review and allow for meaningful discussion and due inquiries.

Minutes of each Board meeting are circulated to every Board member prior to confirmation of the minutes in the next Board meeting.

### Board, Board Committees, and General Meetings Attendance

Details of the Directors' attendance at Board, Board Committees and the Annual General Meeting during 2016 are summarised as follows:

| | Board Meeting | | Board Audit Committee Meeting | | Nominating Committee Meeting | | Remuneration Meeting | | Annual General Meeting |
|---|---|---|---|---|---|---|---|---|---|
| **Name of Directors** | **#Held** | **Attended** | **#Held** | **Attended** | **#Held** | **Attended** | **#Held** | **Attended** | **Attended** |
| Wang, YouDe▲ | – | – | Non-Member | Non-Member | – | – | – | – | N/A |
| Wang, ZongQuan | – | – | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | N/A |
| Martinus Joseph Marinus Aloysius Stals | – | – | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | N/A |
| Datuk Iain John Lo@ | 8 | 8 | Non-Member | Non-Member | 4 | 3 | 1 | 1 | Yes |
| Amir Hamzah bin Abu Bakar@ | 8 | 7 | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | Yes |
| Dato' Seri Talaat bin Haji Husain | 8 | 6 | 6 | 6 | 4 | 4 | 1 | 1 | Yes |
| Datuk Zainun Aishah binti Ahmad | 8 | 7 | 6 | 6 | 4 | 4 | 1 | 1 | Yes |
| David Lau Nai Pek | 8 | 7 | 6 | 6 | Non-Member | Non-Member | Non Member | Non-Member | Yes |
| Datuk Yvonne Chia | 8 | 8 | 6 | 6 | Non-Member | Non-Member | Non-Member | Non-Member | Yes |
| Michael John Carey@ | 8 | 8 | 6 | 6 | Non-Member | Non-Member | Non-Member | Non-Member | Yes |

| | Board Meeting | | Board Audit Committee Meeting | | Nominating Committee Meeting | | Remuneration Meeting | | Annual General Meeting |
|---|---|---|---|---|---|---|---|---|---|
| **Name of Directors** | **#Held** | **Attended** | **#Held** | **Attended** | **#Held** | **Attended** | **#Held** | **Attended** | **Attended** |
| Heng Hock Cheng* | 5 | 5 | 1 | 1 | Non-Member | Non-Member | Non-Member | Non-Member | Yes |
| Sun, JianYun | – | – | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | N/A |
| Arnel Lamco Santos§ | 1 | 1 | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | Non-Member | N/A |

# *Number of meetings held during tenure as Director and/or Board Committee member.*
▲ *Wang, YouDe was appointed as a member of the Nominating Committee and Remuneration Committee on 24 February 2017.*
@ *Datuk Iain John Lo, Amir Hamzah bin Abu Bakar and Michael John Carey resigned as Directors on 22 December 2016.*
§ *Arnel Lamco Santos resigned as Director on 25 February 2016.*
* *Heng Hock Cheng was appointed as a Director on 1 April 2016 and subsequently as a Board Audit Committee Member on 25 August 2016.*

*Notes: Wang, YouDe, Wang, ZongQuan, Sun, JianYun and Martinus Joseph Marinus Aloysius Stals were appointed as Directors on 22 December 2016. There was no Extraordinary General Meeting held in 2016.*

### Independent Professional Advice

All Directors may seek independent professional advice in connection with their role as a Director. The Board collectively and individually has at their disposal, access to external independent and professional advice by engaging experts at the expense of the Company in fulfilment of its roles and responsibilities. All Directors have unlimited access to the advice and services of the Company Secretaries, whose appointments and resignations are subject to Board's approval. Our Company Secretaries who are qualified members of MAICSA regularly inform the Board on the changes to statutory and regulatory requirements applicable to the Company. The Company Secretaries also regulate and plan for meetings of the Board and Board Committees working with the respective Chairman to plan the agenda.

During the year in review, the Board had appointed four (4) external consultants to advise and assist in the completion of the share sale and the issuance of the Independent Advice Circular in relation to the Mandatory General Offer by MHIL.

Our Company has in place the Directors' and Officers' insurance in connection with the performance of their responsibilities. A copy of the insurance policy is available for inspection.

### Number of Directorships

Pursuant to Paragraph 15.06 of the Listing Requirements, a Director of a listed issuer must not hold more than five (5) Directorships in listed issuers and there is no limitation on Directorships in non-public listed issuers with effect from 1 June 2013. This will ensure that the Board's commitment, resources and time are focused on the affairs of the Company to enable them to discharge their duties effectively. All of our Directors are in compliance with this requirement.

### Social Responsibility

The Board takes a particular interest in our Company's role as a responsible and caring member of the community. To this end, your Board has engaged in various initiatives set out on pages 60 to 61 of this Annual Report.

## BOARD COMMITTEES

The Board has delegated specific responsibilities to three (3) sub-committees, namely the Board Audit Committee, Nominating Committee and Remuneration Committee, consisting primarily of Non-Executive Directors which have authority to examine issues and report to the Board. The functions and terms of reference of Board Committees and the authority delegated by the Board to these Committees are clearly defined by the Board.

# CORPORATE GOVERNANCE STATEMENT

## NOMINATING COMMITTEE

Our Company's Nominating Committee was instituted on 27 August 2009 following a review of the existing nomination and succession planning processes which are formal, transparent and in accordance with the recruitment processes. The committee comprises two INEDs and one non-independent non-executive director, with the Chairmanship being held by Dato' Seri Talaat bin Haji Husain, a Senior Independent Non-Executive Director. The objectives of the Nominating Committee can be found in its terms of reference which is available at www.hrc.com.my.

### Nomination and Succession Planning Process

The Nominating Committee keeps under review the leadership needs of our Company. It identifies and nominates suitable candidates for the Board's approval to fill vacancies as and when they arise. For all nominations of candidates to fill Board vacancies, the Nominating Committee ensures that the nomination process has taken into account the required mix of skills, knowledge, integrity, experience, expertise and core competencies the candidates would bring to the Board. In addition to the above duties, the Nominating Committee also makes recommendations on who should be appointed Chairman of the Board Audit Committee and the Remuneration Committee and in consultation with the Committee Chairman, on the appointment of Committee members. It makes recommendations on corporate governance guidelines, monitors compliance with corporate governance requirements and makes recommendations on disclosures connected to corporate governance and its appointment processes. The Board makes the final decision on the appointment of Directors in accordance with our Company's Constitution. During the year under review the Board received nominations from the major shareholders for the appointment of respectative to the Board. The Nominating Committee in reviewing the credentials and qualification of the nominees were of the opinion that these nominees were suitable and competent having extensive and relevant experience and upon their recommendation their appointment were formalised.

### Gender Diversity Statement

The Nominating Committee and the Board are committed to gender diversity recommendation for Board composition. Currently, two (2) out of nine (9) Directors on the Board are women.

Our Company observes diversity targets of:
- Gender – percentage of women in senior leadership
- Inclusion – continuous improvement with respect to workplace inclusion.

Our Company has successfully taken steps and measures to implement and ensure that the Diversity targets are realised. The following information represents the achievements of our Company and is evidence of its commitment towards having a diverse and inclusive workforce.

### Gender

For the year under review, 29 percent of the senior management of our Company is represented by women, notwithstanding that 11 percent of the total workforce are women. It should be noted that the predominantly male workforce is due to the nature of the business of our Company in the manufacturing industry, requiring a significant number of employees to work on roster or shifts.

### Nationality/Ethnicity

HRC recognises the importance of ensuring local nationals are in senior leadership positions. Our Company currently operates with 57 percent Bumiputera employees, and prides itself in ensuring that all selection decisions are and will remain merit based. At our Company, diversity does not mean promoting one group over the other.

### Age

As abovementioned, our Company places great importance on meritocracy based selection of its employees. As such, age is not considered a material factor for recruitment purposes, unless the work is physically demanding. Presently, 50 percent of our employees are below 39 years of age, whilst 27 percent are between 40 to 49 years of age, and 23 percent of our employees are above 49 years of age. In addition to this, our Company also employs persons beyond the statutory retirement age on short-term contracts to assist in areas that are specialised in nature.

### Inclusion

Towards achieving an inclusive workforce in which diversity is valued, where individuals are involved and connected, our Company has implemented various initiatives such as learning sessions covering issues including gender, unconscious bias, cultural thinking and micro-inequities.

### Evaluation Process

The Nominating Committee met on 14 April 2017 and recommended to the Board that the current year's evaluation of the Board and its Board Committees be pushed forward and be conducted by December 2017.

The Board noted that the Nominating Committee's recommendation was because a formal detailed evaluation on the Board and its Board Committees were not feasible as some of the Directors who were actively involved in the transition process throughout 2016 were subsequently replaced by new Directors upon the completion of the share sale on 22 December 2016. However, the Nominating Committee had carried out a high-level review and updated the Board with regards to the re-election of Directors, namely Wang, YouDe, Wang, ZongQuan, Sun, JianYun and Martinus Joseph Marinus Aloysius Stals. The Board had no objections to their re-elections. They have the necessary experience including technical skillsets in the refinery business with adequate knowledge to carry out the responsibilities and duties required as Directors of our Company.

The Nominating Committee also deliberated on the re-election of Dato' Seri Talaat bin Haji Husain, who has served the Company as an Independent Director for more than nine years and noted that he has the qualities, competencies and experience to continue performing his duties as an Independent Director of HRC. The Board also noted that as his tenure has exceeded nine years, shareholders' approval is required to retain him as an Independent Director and to hold office until the next Annual General Meeting.

### Meetings

The Nominating Committee sets at least one (1) meeting a year and in 2016, four (4) meetings were held. The details of the Committee members' attendance at the Nominating Committee meetings are summarised as follows:

| Directors | #Held | Attended |
|---|---|---|
| Dato' Seri Talaat bin Haji Husain (Chairman) | 4 | 4 |
| Datuk Zainun Aishah binti Ahmad | 4 | 4 |
| Datuk Iain John Lo *(resigned on 22 December 2016)* | 4 | 3 |
| Wang, YouDe *(appointed on 24 February 2017)* | – | – |

\# *Number of meetings held during tenure as Committee Chairman/Member*

## REMUNERATION COMMITTEE

Our Company's Remuneration Committee was instituted on 27 August 2009 following a review of the existing remuneration processes to set the remuneration of the Managing Director. The purpose of the Remuneration Committee can be found in its terms of reference which is available at www.hrc.com.my.

The Remuneration Committee consists of the Chairman Datuk Zainun Aishah binti Ahmad, an Independent Non-Executive Director, Dato' Seri Talaat bin Haji Husain, another Senior Independent Non-Executive Director and Mr Wang, YouDe, a Non-Independent Non-Executive Director as members. The Committee has set at least one (1) meeting annually. The Remuneration Committee held one (1) meeting in February 2016. During the year under review, Datuk Iain John Lo resigned as member of Remuneration Committee on 22 December 2016, whilst Mr Wang, YouDe was appointed as Member of the Remuneration Committee on 24 February 2017.

The Remuneration Committee reviews annually the Managing Director's and Chief Financial Officer's (CFO) performances taking into consideration their performance feedback from the members of the Board.The Board scrutinises every key area of performance including safety, plant reliability, product quality control, cost management, finance performance, technology and people management. Where applicable, each key performance indicator was compared against previous year's performance, current year's targets, as well as the performance of comparative refineries. The remuneration package of the Managing Director and CFO are approved by the Board with the recommendation of the Remuneration Committee.

Details of the Committee members' attendance at the Remuneration Committee meetings are summarised as follows:

| Directors | #Held | Attended |
|---|---|---|
| Datuk Zainun Aishah binti Ahmad (Chairman) | 1 | 1 |
| Dato' Seri Talaat bin Haji Husain | 1 | 1 |
| Datuk Iain John Lo *(resigned on 22 December 2016)* | 1 | 1 |
| Wang, YouDe *(appointed on 24 February 2017)* | – | – |

\# *Number of meetings held during tenure as a Committee Chairman/Member*

### Directors' Remuneration

The Directors' fees in 2016 are calculated in accordance with the following:

- Independent Non-Executive Directors: They receive remuneration based on the fees approved by the shareholders at the general meeting held on 12 May 2010.
- Non-Independent Non-Executive Director: They receive salaries from their respective employers.

### Directors' Benefits

For the Managing Director's remuneration, the Remuneration Committee conducted the remuneration benchmarking internally with other Shell operating companies in Malaysia based on the level of seniority, individual performance as well as corporate performance. The Managing Director did not participated in the setting of his remuneration package.

The determination of Independent Non-Executive Directors' fees is a matter deliberated by the Remuneration Committee taking into consideration the competitive market situation, the Director's business and financial experience relevant to the Company. The Independent Non-Executive Directors concerned do not participate in the deliberations and voting on decisions in respect of their own remuneration. The Board, as a whole, recommends the remuneration payable to the Independent Non-Executive Directors and any changes thereof to the shareholders for approval at the general meeting, as and when required.

# CORPORATE GOVERNANCE STATEMENT

An analysis of the aggregate Directors' remuneration paid by your Company for the financial year ended 31 December 2016 is set out below:

| Directors | Salary, Bonus and Salary Related Benefits RM'000 | Directors' Fees RM'000 | Attendance and Other Remuneration RM'000 | Total RM'000 |
|---|---|---|---|---|
| **Non-Executive** | | | | |
| Wang, YouDe<br>*(Appointed on 22 December 2016)* | – | – | – | – |
| Wang, ZongQuan<br>*(Appointed on 22 December 2016)* | – | – | – | – |
| Sun, JianYun<br>*(Appointed on 22 December 2016)* | – | – | – | – |
| Dato' Seri Talaat bin Haji Husain | – | 76 | 19 | 95 |
| Datuk Zainun Aishah binti Ahmad | – | 76 | 19 | 95 |
| David Lau Nai Pek | – | 71 | 14 | 85 |
| Datuk Yvonne Chia | – | 76 | 15 | 91 |
| Heng Hock Cheng<br>*(Appointed on 1 April 2016)* | – | 46 | 9 | 55 |
| Amir Hamzah bin Abu Bakar<br>*(resigned on 22 December 2016)* | 1,212 | – | – | 1,212 |
| Datuk Iain John Lo<br>*(resigned on 22 December 2016)* | – | – | – | – |
| Michael John Carey<br>*(resigned on 22 December 2016)* | – | – | – | – |
| **Executive** | | | | |
| Martinus Joseph Marinus Aloysius Stals<br>*(Appointed on 22 December 2016)* | 38 | – | – | 38 |

## THE BOARD AUDIT COMMITTEE (BAC)

The Board Audit Committee was established in 1993. The BAC has wide powers with authority to regulate its own procedures and has its own terms of reference. The BAC's roles, functions and activities are set out on pages 79 to 82 of this Annual Report.

The BAC currently comprises five (5) Directors, all of whom are Independent Non-Executive Directors. One of the Directors in the Committee is a qualified accountant and a member of the Malaysian Institute of Accountants. The Managing Director and the Chief Financial Officer normally attend the BAC meetings by invitation of the Chairman of the Committee. During the year under review, Mr Heng Heyok Chiang @ Heng Hock Cheng, an Independent Non-Executive Director was appointed as a member of the BAC on 25 August 2016, whilst Mr Michael John Carey resigned on 22 December 2016.

There were six (6) meetings of the BAC in 2016, during which the Management made presentations on the Company's state of internal controls and progress of the Assurance Plan. The Independent Non-Executive Directors of the Committee meet independently, at least twice a year, with the external auditors.

### Internal Quality Assurance and Audit Functions

Our Company's internal quality assurance and audit functions were previously outsourced to the Shell Group, to obtain sufficient assurance of regular review and appraisal of the effectiveness of our Company's internal controls. Following the announcement of Shell Overseas Holdings Limited's (SOHL) divestment in our Company in February 2016, the internal audit function was re-organised and is now under the direct management of the Quality & HSSE manager who reports directly to the Managing Director. The QHSSE staff works with a team of trained/certified part time internal auditors across various departments within HRC in reviewing our Company's operational processes and procedures. The BAC relies on the external auditors in reviewing HRC's financial reporting and related processes.

During the year, the Company incurred RM57,000 towards internal audits.

### Internal Control

The Board continues to maintain a sound system of internal controls that provides reasonable assurance of effective and efficient operations, and compliance with laws and regulations, as well as internal procedures to safeguard shareholders' investment and our Company's assets.

In addition, our Company has applied the Shell General Business Principles ("SGBP") for the year under review. The SGBP describes the core values, its responsibilities and the principles and behaviours which are key to our business integrity and performance. HRC has since December 2016, adopted a governance guide, series of policies, management systems, training modules and reporting mechanisms that are designed to support a robust corporate governance system based on and aimed at keeping and improving the governance standards pretransition.

These principles and practices, supported by existing internal controls processes, are regularly audited and reviewed, to ensure transparency and accountability. The Board has strong control and authority over these internal processes and the manner in which such control and authority is implemented and reflected in the Director's Statement on Risk Management and Internal Control on pages 83 to 85.

The Board confirms that during the year, our Company complied with the requirements of relevant laws and regulations.

### Relationship with External Auditors

The Board via the Board Audit Committee has established a formal and transparent professional relationship with the external auditors of our Company. The role of our Board and the Board Audit Committee in relation to the auditors is described on pages 79 to 82 The Independent Directors met the External Auditors on 24 November 2016 to discuss on the audit plan and 24 February 2017 to discuss the external audit findings, without the presence of any Non-Independent Directors, Executive Director and Management.

For engagements of services beyond the scope of the statutory audit, specific approval is required from the Board Audit Committee consistent with the internal governance on the appointment of the External Auditors.

The External Auditors were also invited to attend the Annual General Meeting of the Company to answer shareholders' questions, if any, on the conduct of the statutory audit and the preparation and content of their audit report.

During the year, the Company incurred RM48,000 for non audit fee.

## STRENGTHEN RELATIONSHIP BETWEEN COMPANY AND SHAREHOLDERS

### Annual Report and Annual General Meeting

Our Company believes that the Annual Report and Annual General Meeting embody the characteristics laid down by Bursa Securities of transparency, accuracy, accountability, simplicity and reliability, among others that are required in a shareholders' communication policy of a public listed company.

The key characteristics of effective communication and proactive engagements with shareholders, as promoted in the MCCG 2012 are of utmost importance to the Company. It is for this reason that the Company believes that the Annual General Meeting is an important channel of communication, as it serves as a forum where our Company is able to engage in a discourse with its stakeholders, premised on a shared appreciation of objectives.

The Annual General Meeting, together with the Annual Report of our Company is vital in ensuring that the stakeholders are well-informed and are able to adequately raise any concerns that they might have. In achieving this objective, the Annual Report contains comprehensive and easy to understand details of the business, financial performance and other activities of our Company. These contents are continually enhanced in order that shareholders are provided with clear and accurate information, in line with our parallel objective of maintaining the highest standards of corporate governance.

Our Company's Annual Report also contains written clarifications on each item on the agenda of the Annual General Meeting so that shareholders are suitably briefed on matters that are to be discussed to enable their effective participation. Our Company supports MCCG 2012 recommendation of encouraging shareholders' participation in general meeting. Questions posed are, where possible, answered in detail either at the Annual General Meeting itself or thereafter where the questions and answers are published on our Company's website at www.hrc.com.my or HRCPD-Corporate-Affairs@hrc.com.my. Shareholders are welcome to raise queries by contacting the Company at any time throughout the year and not just at the Annual General Meeting. Our Company's Registrars or appropriate officers of our Company will attend to queries on a prompt and efficient manner.

### Investor Relations

Our Company's website is another communication tool to add depth to the governance reporting and keep shareholders updated throughout the year. The updated information on the website includes, among others, financial results, press releases, Board Charter and other relevant information.

# CORPORATE GOVERNANCE STATEMENT

### Financial Reporting

The Board is committed to provide a balanced, clear and meaningful assessment of the financial position and prospect of our Company in all the reports to shareholders and investors and this is reflected by timely release of quarterly public financial announcements, which include details of our Company's business performance and current issues and concerns. The Directors scrutinise these announcements at their Board Meetings prior to publication to ensure that they are accurate and present a balanced assessment of our Company's affairs. The Board is assisted by the Board Audit Committee to oversee the financial reporting process and the quality of financial reporting of the Company. The Statement by Directors pursuant to Section 169 of the Companies Act, 1965 is set out on page 91 of this Annual Report.

### Statement of Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965, which give a true and fair view of the state of affairs of our Company at the end of the financial year and of the results and cash flows of our Company for the financial year.

In preparing the financial statements, the Directors have:

- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that are reasonable and prudent;
- ensured that all applicable approved accounting standards and provisions of the Companies Act, 1965 have been followed; and
- based such statements on a going concern basis as the Directors have a reasonable expectation, having made enquiries, that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Directors have the responsibility for ensuring that our Company keeps accounting records which disclose with reasonable accuracy the financial position of our Company and which enable them to ensure that the financial statement comply with the Companies Act, 1965.

The Directors are cognisant of the key changes arising from the newly gazetted Companies Act, 2016, which replaced Companies Act, 1965, with effect from 31 January 2017. The Directors will continues to ensure that our Company remains in compliance with the updated regulations and statutory requirements.

The Directors have overall responsibilities for taking such steps that are reasonably open to them to safeguard the assets of our Company to prevent and detect fraud and other irregularities.

## PRINCIPLES AND CODES

Our Company prescribes to the standards under the previous major shareholder. As at completion of transition, our Company continues to practice similar standards to uphold best practices and governance standards.

### General Business Principles ("GBP")

The GBP defines how our Company is expected to conduct our affairs. These principles include, among other things, HRC's continued commitment to support fundamental human rights in line with the legitimate role of business and to contribute to sustainable development. The Board believes that the GBP allows for proper and good corporate governance by the Company, alongside the recommendations of the CG Code.

The GBP has remained consistent ever since, because the core values on which the Principles were originally based have endured, namely:

- Honesty
- Integrity
- Respect for people

Our Company firmly believes in the fundamental importance of the promotion of trust, openness, teamwork and professionalism, and takes pride in what it does. These underlying corporate values determine our Company's principles. These principles apply to all transactions, large or small, and describe the behaviour expected of every employee in our Company in the conduct of its business. In turn, the application of these principles is underpinned by procedures within our Company, which are designed to ensure that its employees understand the principles and that they act in accordance with them. Our Company recognises that it is vital that its behaviour matches its intentions.

All the elements of this structure – values, principles and the accompanying procedures – are necessary. It is our Company's firm belief that maintaining the trust and confidence of its stakeholders, namely the shareholders, employees, customers and other people with whom our Company does business, as well as the communities in which your refinery is situated, is crucial to its continued growth and success. Our Company intends to merit this trust by conducting itself according to the standards set out in these principles. These principles have served our Company well for many years. It is the responsibility of Management to ensure that all employees are aware of these principles, and behave in accordance with the spirit as well as the letter of the GBP.

Our Company provides awareness and knowledge training on the topics covered in the GBP. This training is designed to raise awareness as well as educate employees on the risks associated with the relevant requirements of the GBP and the Code of Conduct which in turn allows for strong corporate governance to be upheld and knowledge training for employees exposed to greater risk. All training packages address legal and ethical risks associated with the principles of the GBP.

Training and awareness is divided into several categories, as further elaborated.

### Code of Conduct

Directors and employees are required to comply with the Code of Conduct, which is intended to help them put our business principles which encompass high standards of corporate governance into practice. This is done by clearly communicating the basic rules and standards expected to be followed as well as the behaviours we expect of them.

The Code of Conduct crystallises the basic rules, standards and behaviours necessary to achieve those objectives. It provides requirements and guidance, expressed as clearly, concisely and consistently as possible, within a single, company-wide document for all the employees on a number of enterprise-wide risk areas. It is intended to be viewed as an essential guide, rather than merely a set of rules for compliance. In ensuring this intention is realised, the Code of Conduct contains directions to additional detailed materials required to be read in order that a deeper and more holistic understanding of the Code of Conduct is obtained. The consequences of breaching the Code of Conduct are clearly set out in the Code of Conduct, and this demonstrates our commitment and determination in ensuring that our Company adheres to the high standards set out in the GBP. The Code of Conduct is a place to start the search for guidance, advice and answers when employees are faced with questions in their daily work, because it provides a great deal of useful information. For example, for each component of the Code of Conduct, some questions for each employee to address and answers are provided as part of the internal process and methodology to challenge decisions made in respect of issues that may potentially conflict with the principles by which the our Company abides.

The Code of Conduct provides:

- practical advice on how to comply with laws and regulations
- requirements and guidance about how an employee should relate to colleagues, customers, shareholders, communities, vendors, competitors and governments
- employees to other useful information sources applicable to performing their duties as an employee
- explanation on how to get confidential advice
- assistance for employees to resolve difficult questions about business conduct
- circumstances or situations in which employees are expected to report their concerns

Taking into account the practical reality of conducting business and working, our Company acknowledges that its employees or Directors may be faced with legal or ethical dilemmas in the course of work. It is for this reason that the Code of Conduct is adequately comprehensive in nature, in order to ensure that the concerns and interest of our stakeholders will not be compromised

### Access to Information

Our Company is committed to provide accurate, timely, consistent and fair disclosure of corporate information and supports ease of accessibility to information and advice for members. Our Company has in place the Corporate Disclosure Guide.

This Guide addresses the five pillars of disclosure and transparency, namely, Truthfulness, Completeness, Materiality of Information, Timeliness and Accessibility. Information on the Corporate Disclosure Guide is available in our Company's website.

### Corporate Integrity

The Board is pleased to advise that our Company has signed the Malaysian Corporate Integrity Pledge ("Pledge") in July 2011. The effect of signing this Pledge includes the declaration of clear company policies and processes in the event our Company is faced with potential corruption cases, and also this Pledge differentiates our Company from its peers by signifying that its operations do not condone or include costs due to corrupt activities. By signing this Pledge, our Company is currently listed in the registrar of signatories that is carried on the website of the Malaysian Integrity Institute.

## OTHER INFORMATION

### Conflict of Interest

None of the Directors has any family relationship with other Directors and/or major shareholders of our Company, nor any personal interest in any business arrangement involving the Company. None of the Directors has had convictions for any offences within the past ten (10) years.

### Material Contracts Awarded to Directors and Substantial Shareholders

None of the Directors and substantial shareholders had any material contract with the Company during the financial year under review.

### Sanctions and/or Penalties Imposed

There were no significant sanctions and/or penalties imposed on our Company, its Directors or Management by the relevant regulatory bodies during the financial year under review.

# CORPORATE GOVERNANCE STATEMENT

## Corporate Proposal and Utilisation of Proceeds

During the financial year under review, there were no proceeds raised by our Company from any corporate proposals.

The Board has supported the Mandatory General Offer (MGO) exercise as necessary after the share sale completion to ensure full compliance to the regulations. The Board Audit Committee had reviewed the MGO documents together with the INEDs. The INEDs also formed part of the Due Diligence Working Group with the Independent Advisor for the issuance of the Independent Advice Circular in February 2017, which facilitated the completion of the MGO in compliance with the Malaysian Code on Take-Overs and Mergers 2016.

## Share Buybacks

Our Company did not enter into any share buyback transactions during the financial year under review.

## Options, Warrants or Convertible Securities

Our Company has not issued any options, warrants or convertible securities during the financial year under review.

## American Depository Receipt ("ADR") or Global Depository Receipt ("GDR") Programme

Our Company did not sponsor any ADR or GDR programme during the financial year under review.

## Profit Guarantee

During the financial year under review, there were no profit guarantees given by our Company.

## Recurrent Related Party Transactions of Revenue or Trading Nature

The Recurrent Related Party Transactions of Revenue or Trading Nature is stated in Note 25 to the Financial Statements.

## Variation of Results

There was no variation of actual results which differ by 10 percent or more than unaudited results announced. Our Company did not make or release any profit estimate, forecast or projection during the financial year under review.

## Personal Data Protection Notice

Our Company is committed to keeping your personal data secured.

## Further Information

The following information is available on the Company's website at www.hrc.com.my:

- the Board Charter;
- terms of reference of the Board Audit Committee, the Nominating Committee and the Remuneration Committee;
- the Code of Ethics for Executive Directors and Senior Financial Officers;
- the Constitution of the Company; and
- the Annual Report for five (5) preceding years

# BOARD AUDIT COMMITTEE REPORT

## COMPOSITION

Members of the Audit Committee ("Committee") are:

**Datuk Yvonne Chia**
*Chairman*

**Dato' Seri Talaat bin Haji Husain**

**Datuk Zainun Aishah binti Ahmad**

**David Lau Nai Pek,** *MIA, CA (NZ)*

**Heng Heyok Chiang @ Heng Hock Cheng**
*(appointed on 25 August 2016)*

## ATTENDANCE AT MEETINGS

The details of attendance of each member at the Committee meetings held during the financial year ended 31 December 2016 are as follows:

| Name of Members | No of Committee Meetings | |
|---|---|---|
| | #Held | Attended |
| Datuk Yvonne Chia | 6 | 6 |
| Dato' Seri Talaat bin Haji Husain | 6 | 6 |
| Datuk Zainun Aishah binti Ahmad | 6 | 6 |
| David Lau Nai Pek | 6 | 6 |
| Michael John Carey (resigned on 22 December 2016) | 6 | 6 |
| Heng Heyok Chiang @ Heng Hock Cheng (appointed on 25 August 2016) | 1 | 1 |

*# Number of meetings held during tenure as Committee member*

Our Company's Managing Director, Chief Finance Officer and External Auditors (as and when required) attended these meetings to brief the Committee on specific issues. The Committee had one (1) meeting with the External Auditors on 24 February 2017 to discuss the results of the audit for the financial year ended 31 December 2016 and any other observations they may have during the audit process and regarding risk management issues, without the presence of the Non-Independent Directors, Executive Director and Management.

Minutes of meeting of the Committee were circulated to all members and significant issues are highlighted by the Committee Chairman at the Board of Directors meeting for further discussion and deliberation, and where applicable, for its approval.

## ACTIVITIES OF THE BOARD AUDIT COMMITTEE (BAC)

During the financial year ended 31 December 2016, the Committee carried out the following activities:

**Assurance Plan 2016**

The Company has an Assurance Plan 2016 comprising external quality assurance audits/reviews. The Committee reviewed and endorsed the Assurance Plan 2016 to ensure adequate scope and comprehensive coverage over the activities and to cover the risk management of our Company. In order to support these Audits, Management implemented eight (8) site internal audits and five (5) process effectiveness reviews to ensure readiness for the above audits.

The Committee reviewed all internal audit/review report in 2016 as listed below on a range of business processes and regulatory compliance. Where appropriate, the Committee had 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 Committee also reviewed the action plans being implemented to address internal control gaps and ensured that all plans and actions were closed out on a timely basis.

The Quality Assurance Plan 2016 was as follows:

| Name of Audit/Review | Period Conducted |
|---|---|
| **External Quality Assurance Audits** | |
| ISO 9001 Recertification | Q2 |
| ISO 14001 Surveillance/ OHSAS 18001 Recertification | Q2 |
| ISO 17025 Recertification | Q3 |
| International Ship and Port Facility Security | Q3 |
| **Site Internal Quality Assurance Audits** | |
| ISO17025 | Q2 |
| International Ship and Port Facility Security | Q2 |
| ISO9001 | Q2 |
| ISO14001/OHSAS18001 | Q2 |
| Safety Critical Equipment | Q3 |
| Instrumented Protective Function | Q3 |
| Ensure Safe Production | Q4 |
| Management of Change | Q4 |

# BOARD AUDIT COMMITTEE REPORT

| Name of Audit/Review | Period Conducted |
|---|---|
| Ensure Plan Delivery | Q1 |
| Learning From Incident | Q2 |
| Causal Learning | Q2 |
| Refinery Programming and Scheduling | Q2 |
| Custody Transfer Meter and Mass Balance | Q2 |

The Committee monitored the corrective actions on outstanding audit issues to ensure that all the key risks and control lapses were covered and have been addressed in a timely and comprehensive manner.

During the 3rd and 4th quarter of the year in review, the Committee spent considerable time to address the IT transition to ensure the smooth and continued operations of the plant. The Committee also reviewed transition agreements pertaining to the long term crude supply and product offtake, management continuity and cash sufficiency as part of the share sale exercise.

### Financial Reporting

a. Reviewed the unaudited quarterly financial results before recommending them for approval by the Board.

b. Reviewed the annual audited financial statements with the External Auditors prior to presenting to the Board for their consideration and approval. The review was to ensure compliance with:

   i. Provisions of the Companies Act;

   ii. Listing Requirements;

   iii. Applicable approved accounting standards;

   iv. Compliance to new accounting standards;

   v. Other legal and regulatory requirements.

### External Financial Audit

a. Reviewed and approved External Auditors' audit plan, audit strategy and scope for the year, and payment of auditors' statutory and non-statutory audit fees.

b. Evaluated the performance and effectiveness of the External Auditors and made recommendations to the Board on their appointment.

c. Reviewed the results of the annual audit reports on the audit findings together with recommendations and Management's response as set out in the Management Letter issued to the External Auditors.

### Risk Management and Internal Control

Reviewed and approved our Company's risk profile on a quarterly basis and ensuring sufficient coverage of all major risks in the business environment is included and mitigated. Risk Management is managed through the CFO's office working closely with the Internal Audit Team and management.

### Whistle Blowing

Reviewed the whistle blowing cases and other business integrity related cases reported on a quarterly basis and also ensured appropriate actions were taken by the integrity officer or Human Resource focal point in addressing the concerns reported.

### Related Party Transactions

The Committee reviewed the Circular to Shareholder in relation to Proposed Renewal of Shareholders' Mandate on recurrent related party transaction of revenue or trading nature on related party transactions on an annual basis relating to Shell affiliates. The Committee also reviewed the status of actual expenditure on recurrent related party transactions on a quarterly basis and ascertain the actual value has not breached the existing shareholders' mandate thresholds.

### Internal Audit Function

Our Company has a Management Internal Audit Committee (MIAC) which comprises representatives from Management to review and evaluate significant risks, and internally approved risk-based audit plans prior to sending them to the Committee and the Board for approval.

This report was approved by the Committee and Board of Directors on 14 April 2017.

## TERMS OF REFERENCE

In line with the best practice of Corporate Governance, the Committee is governed by the following terms of reference:

### Constitution

The Board of Directors established the Committee on 22 September 1993 to:

a. Assist in discharging the Board's responsibilities relating to our Company's management of internal controls, accounting policies and financial reporting;

b. Provide by way of regular meetings, a line of communication between the Board and our Company's internal and external auditors. The internal audit function assists the Committee in its discharge of duties and responsibilities. The internal audit function reports directly to the Committee which determines the scope and function of the department. The internal audit function carries out its responsibilities by conducting review based on the approved internal audit and assurance plan.

### Membership

a. The Committee is appointed by the Board and consists of at least three (3) members. All the Committee members must be Non-Executive Directors, with a majority of them being Independent Directors to fully comply with paragraph 15.09 of the Listing Requirements.

b. The Chairman is one of the appointed Independent Non-Executive Directors. In the absence of the Chairman, the meeting shall be chaired by an Independent Director.

c. At least one (1) member:
   i. Must be a member of the Malaysian Institute of Accountants ("MIA"); or
   ii. If he is not a member of the MIA, he must have at least three (3) years of working experiences; and
      - He must have passed the examination specified in Part 1 of the 1st Schedule of the Accountant Act 1967; or
      - He must be a member of one of the Association of Accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967; or
      - Fulfills such other requirements as prescribed or approved by Bursa Securities.

d. No Alternate Director shall be appointed as a member of the Committee.

In the event of any vacancy resulting in the number of members being reduced to below three (3), the vacancy must be filled within three (3) months.

### Quorum and Frequency of Meeting

a. A quorum shall be the majority of Independent Non-Executive Directors.
b. Meetings shall be held at least four (4) times each calendar year, usually preceding the meetings of the Board.
c. The external auditors and internal auditors may request a meeting if they consider it necessary in any Committee meeting.
d. At least twice a year, the Committee shall meet with the external auditors without any Non-Independent member or the Management present.
e. The Managing Director and the Chief Finance Officer shall attend the quarterly meetings although they do not have any voting rights.
f. The Committee may call for a meeting as and when required with reasonable notice as the Committee Members deem fit.

### Secretary

The Company Secretary (or any one or more of, if more than one Company Secretary) or such other approved person shall be the secretary of the Committee (the "Committee Secretary"). The Committee Secretary shall provide assistance to the members of the Committee, including but not limited to assist the Committee Chairman in planning the work of the Committee, formulating meeting agendas, maintenance of Committee minutes, collation and distribution of information required by the Committee and provide practical support, as and when needed.

### Authority

The Committee is authorised by the Board to investigate any activity within its terms of reference and shall have full and unrestricted access to information it requires from any employee of the Company, and all employees are directed to co-operate with any request made by your Committee.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise whenever deemed necessary. During the year in review, the Board of Directors have appointed four (4) external consultants to review relevant strategic agreements and IT separation during the transition.

### Duties and Responsibilities

The following are the main duties and responsibilities of the Committee, and where appropriate, your Committee reports to the Board on the following:

**a. Risk Management & Internal Control**

   i. Review the adequacy of and to provide independent assurance to the Board on the effectiveness of the Company's risk management and risk assurance process.
   ii. Evaluate the quality and effectiveness of the Company's Internal Control system and management information systems, including compliance with applicable laws, rules, corporate governance requirements and guidelines.
   iii. Recommend to the Board, the Director's Statement on Internal Control and any changes thereto.

**b. Financial Reporting**

   i. Review the quarterly results and annual financial statements before recommendation to the Board for approval for release to Bursa Securities, focusing particularly on:
      - Any changes in or implementation of accounting policies and practices;
      - Significant or material adjustments with financial impact arising from the audit;
      - Significant unusual events or exceptional activities;
      - Financial decision-making with the presumptions of significant judgments;
      - The going concern assumptions; and
      - The appropriateness of Management's selection of accounting policies and disclosures in compliance with approved accounting standards, stock exchange and other regulatory requirements.
   ii. Propose best practices on disclosure in financial results and annual reports of the Company in line with the principles set out in the MCCG 2012, other applicable laws, rules, directives and guidelines.

# BOARD AUDIT COMMITTEE REPORT

**c. External Audit**

i. Recommend the appointment or re-appointment of the external auditors and audit fee to the Board, after reviewing the suitability, resources, competency and independence of external auditors and the accounting firm.

ii. Make appropriate recommendations to the Board on matters of resignation, dismissal or cessation of office of the external auditors and secure the reason of such resignation, dismissal or cessation of office.

iii. Review and discuss the nature and scope of the external audit strategy and plan for the year.

iv. Review and discuss issues arising from external auditors' interim and final letters of recommendation to Management, including Management responses and the external auditor's evaluation on the system of internal control and any other matters the external auditor may wish to discuss (in the absence of Management, if required).

**d. Internal Audit**

i. Review the adequacy of the scope, functions, competency, resources and authority of the internal audit function in carrying out its work.

ii. Review the risk-based internal audit plans and programmes.

iii. Ensure co-ordination between the internal and external auditors.

iv. Review the major findings reported by internal audit and follow up on Management's implementation of the recommended actions.

v. Annually assess performance of services provided by the internal audit function.

**e. Related Party Transactions**

Review and recommend to the Board matters regarding Related Party Transactions including disclosures, values of mandates and situations involving potential conflict of interest that may arise within the Company, including any transaction, procedure or course of conduct that raises questions on Management's integrity.

**f. Other Matters**

i. To report to Bursa Securities, if the Committee views that a matter resulting in a breach of the Listing Requirements reported by the Committee to the Board has not been satisfactorily resolved by the Board.

ii. To highlight such matters as the Committee considers appropriate or as defined by the Board from time to time.

iii. To review the announcement to Bursa Securities, if there is any related party transactions which exceed the Existing Shareholders' Mandate and provide full reasoning and detailed explanations.

The Terms of Reference was last reviewed on 14 April 2017.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

## RESPONSIBILITY OF THE BOARD

- The Board of Directors of our Company affirms its overall responsibility for the Company's risk management and internal control system. The Board recognises the importance of sound internal controls and applying effective risk management, as it increases the value of business decisions where conscious choices are made within the assured boundaries of controls and in relation to risks that have an impact on, or result from, these business decisions.

- In carrying out this duty, the Board reviews the adequacy and effectiveness of these systems, including but not limited to, the sufficiency of the internal control reporting process and management information systems, and regulatory compliance. The Board, through its committees and the management, has ensured that an ongoing review of the risks and controls that impact the Company's objectives is in place. The process is reviewed by the Board from time to time and the Board is guided by, among others, the Statement on Risk Management & Internal Control: Guidelines for Directors of Listed Issuers (Malaysian Code on Corporate Governance 2012 ("MCCG 2012")).

- Apart from risk management and internal controls, the Board also reviews both the long term and short term sustainability plan of our Company to ensure its robustness in achieving our Company's objectives.

### Role of Management

Whilst the Board assumes responsibility for the internal controls and risk management of the Company, the Management of our Company is critical for the implementation of the approved policies, limits and procedures on internal controls and risk management. Management is accountable to regularly self-assess that controls continue to operate effectively.

## 1. KEY RISK MANAGEMENT FEATURES AND INTERNAL CONTROLS

### Risk Management Framework, Features and Objectives

Our Company observed and reviewed the risk management framework which sets out the fundamental principles of the governance of risk management, in addition to the Assurance Plan approved by the Audit Committee.

The central feature of the risk management framework requires every department and function within the Company to review their environment, state clear objectives and accordingly carry out the following:-

- **Formulate** a risk matrix that is used to:-
  - identify risks to the achievement of the Company's objectives;
  - Assess the impact and likelihood of the risks materialising;
- **Implement** effective actions designed to:-
  - Achieve business objectives;
  - Safeguard the Company's assets from inappropriate use, loss or fraud;
  - Facilitate economic, effective, efficient and safe operations; and
  - Enable compliance with the boundaries set/ by the Company.
- **Monitor**, communicate and report changes in the risk environment, as well as on the effectiveness of the actions implemented to manage identified risks.

The objective of risk management is not, therefore, arbitrarily to reduce or eliminate risk. It seeks to set advanced awareness and boundaries for risk-taking and apply fit-for-purpose risk responses in order to enable the Company to provide a reasonably sufficient, and not an absolute assurance, against material misstatements, loss or fraud. In addition, it allows the Company 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.
- Mitigate the impact of a 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.

### Internal Controls

One of the main control processes of the Company's system of internal controls is the delegation of authority process. The Company has an integrated, consistent process to delegate authority from the Board of Directors to individuals and committees. The principal delegated authorities are documented in a tool referred to as the Manual of Authorities. These help to ensure that actions in the key business processes are taken with the appropriate level of authority.

# STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

### Governance and Assurance Plan

The Board is assisted by the Audit Committee to oversee the management of key risks faced by the Company. The Audit Committee reviews internal control issues raised by the Internal Audit divisions and external auditors, to ensure and preserve an objective and independent perspective. The Audit Committee also communicates closely with the management of the Company to examine the accuracy of the principal risks of the Company that have been identified and ensure that the Company has an on-going process for risk management.

These internal assurance processes is governed by the Risk Management Officer who deliberates periodically with the management team, to establish the risk profile of our Company. The changes to our Company's risk profile, the risk responses, action plans and assurances are documented in the Risk Register and Assurance Plan. The Assurance Plan is the basis of the Risk Based Audit Plans developed for our Company.

| Risk Categories | Overview |
|---|---|
| Health, Safety, Secutiry and Environment ("HSSE") | Risks that cover the Major Process Safety, Security, Personal Safety, Clean Air Regulations, (issued under the Environmental Quality Act 1974) and Site Environmental Performance |
| Operations | Overlooking operational risks including Marine, Plant Outage, People Morale Post Announcement, Euro 4 and Euro 5 readiness, Transition, Technical Resourcing, Product Quality Management, Competency Development and Union |
| Commercial | Focusses on risks related to Demurrage, Product Exposure, Margin Exposure, Forex Exposure, Reputation Management, Cost Management and Business Continuity Plan. |

This process is regularly reviewed by the Board and the Audit Committee, as part of the normal governance process, taking cognisance of changes in the regulatory and current market conditions to ensure the validity of the system of risk management and internal controls. Such process has continued to be in place during the year under review post Shell divestment.

Further details of the Audit Committee of the Company are set out in the Board Audit Committee Report.

## 2. OTHER ASPECTS OF RISK MANAGEMENT AND INTERNAL CONTROLS

The other key elements of our Company's risk management and internal control system include the following:

- The Board meets at least quarterly and has set a schedule of matters, which is required to be brought to its attention for discussion, thus ensuring that it maintains full and effective supervision over appropriate controls. Your Managing Director leads the presentation of board papers and provides comprehensive explanation of pertinent issues. In arriving at any decision, on recommendation by the Management, a thorough deliberation and discussion by the Board is a prerequisite.
- Clearly documented and auditable procedures and manuals in respect of financial controls, manual of authorities, trading controls, contracting and procurement, engineering, operation, human resource, technology, code of conduct, health, safety, security, environment and "Control Registers" over activities, which affect our Company's financial results.
- Structured review of financing proposals and business plans before adoption combined with a detailed budgeting process. An annual budget is prepared by Management and tabled to the Board for approval. Continuous monitoring is carried out quarterly to measure actual performance against budget so as to identify significant variances arising and devise remedial action plans.
- Regular and comprehensive information provided to Management and on a quarterly basis to the Board, covering financial performance and key business performance indicators and dividend pay-outs, if any.
- The monitoring by, and reporting to, the Board of every single affixation of the Company's Common Seal was made in accordance with the Articles of Association of the Company.

- Declaration by all Directors and employees on a case-by-case basis on any conflict of interest.
- The Statement of General Business Principles ("Principles") by our Company and the Code of Conduct ("Code") as applicable to all employees, which governs the standards of conduct and provides guidance of the ethical standards expected of each employee. Any breach of these Principles or the Code is actionable by disciplinary proceedings.
- In order to uphold our Company's stand against bribery and corruption, the reporting by all employees on all gifts and hospitality whether offered or accepted, is made and tracked through a Gifts and Hospitality Register. Stricter rules on gifts and hospitality for government officials apply to all employees and these rules and thresholds are updated as and when our Company sees is necessary. All employees, including directors are reminded of this obligation periodically. Management also issues reminders to suppliers and customers of this policy particularly ahead of a festive season and ensures that applicable local laws and acts in relation to bribery and corruption are abided to.
- Declaration by Directors and key management personnel on any shareholding and movements thereof on any shares of the Company held by such employee through the yearly declaration for Share Transactions.
- Staff to raise concerns where the interest of the Company or its stakeholders is at risk, either by a breach of a process or procedure, ethical codes or even where beneficial opportunities to the Company may be missed.
- A regular review of the Board Committee's Terms of Reference, Board Charter from time to time to streamline with the amendments enforced by the relevant authorities.

In addition to the above, operational committees have been established for the oversight, reporting and planning of the Company's core operations. These include the Management Team, the Contracts Board and the Technical Leadership Team, among others.

## ASSURANCE

For the financial year under review, the Board is pleased to confirm that the Board Audit Committee, on a quarterly basis, reviewed activities and performance against the framework for internal controls and risk management in the Company, as earlier described.

Based on these quarterly reviews and activities, the Board is satisfied that the risk management and internal controls systems of the company are operating adequately and effectively. Further, during the financial year 2016, the Board is pleased to report that there were no material financial and non-financial losses reported as a result of weaknesses or failures in internal controls.

The Board Audit Committee has extensively reviewed the long term strategic and financial contracts as part of the transition as triggered by the share sale to ensure business continuity. The Committee also focused on the refinancing agreements and IT separation process which are also critical aspects of the transition.

The Board has also received management representation by the Managing Director and Chief Finance Officer, that the risk management and internal control process are adequate to safeguard shareholders' investments and assets.

Our Company strives to ensure the sufficiency of the processes in place and will review if further enhancement of the practices described is necessary, based on the recommendations set out in the Malaysia Code of Corporate Governance and the guidelines on Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers.

This statement is made in accordance with the resolution of the Board of Directors dated 14 April 2017.

# FINANCIAL STATEMENTS

# 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 2016.

## 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 | 335,273 |

## DIVIDENDS

No dividend has been paid, declared or proposed since the end of the Company's previous financial year. The Directors do not recommend the payment of any final dividend for the financial year ended 31 December 2016.

## 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 | (appointed on 22 December 2016) |
| Wang, ZongQuan | (appointed on 22 December 2016) |
| Martinus Joseph Marinus Aloysius Stals | (appointed on 22 December 2016) |
| Sun, JianYun | (appointed on 22 December 2016) |
| Dato' Seri Talaat bin Haji Husain | |
| Datuk Zainun Aishah binti Ahmad | |
| Datuk Yau Ah Lan @ Fara Yvonne | |
| David Lau Nai Pek | |
| Heng Heyok Chiang @ Heng Hock Cheng | (appointed on 1 April 2016) |
| Datuk Iain John Lo | (resigned on 22 December 2016) |
| Amir Hamzah Bin Abu Bakar | (resigned on 22 December 2016) |
| Michael John Carey | (resigned on 22 December 2016) |

## 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, 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.

## 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 allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values 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 the amounts written-off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company 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 render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

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

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 16 to the financial statements; and

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

## 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.

## SIGNIFICANT EVENTS

On 22 December 2016, Malaysia Hengyuan International Limited, a subsidiary of Shandong Hengyuan Petrochemical Group Company Limited, acquired 51% of the issued and paid up share capital of the Company from Shell Overseas Holdings Limited, a subsidiary of Royal Dutch Shell Plc.

Pursuant to the change in holding company, the Company's name was changed from Shell Refining Company (Federation of Malaya) Berhad to Hengyuan Refining Company Berhad effective 9 March 2017.

## 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

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 14 April 2017.

**MARTINUS JOSEPH MARINUS ALOYSIUS STALS**
MANAGING DIRECTOR

**WANG, YOUDE**
CHAIRMAN

# STATEMENT BY DIRECTORS

## PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Martinus Joseph Marinus Aloysius Stals and Wang, YouDe, two of the Directors of Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad), state that, in the opinion of the Directors, the accompanying financial statements set out on pages 97 to 129 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2016 and financial performance of the Company for the financial year ended 31 December 2016 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The supplementary information set out in Note 32 on page 130 have been prepared in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with their resolution dated 14 April 2017.

**MARTINUS JOSEPH MARINUS ALOYSIUS STALS**
MANAGING DIRECTOR

**WANG, YOUDE**
CHAIRMAN

# STATUTORY DECLARATION

## PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Foo Ai Li, the officer primarily responsible for the financial management of Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad), do solemnly and sincerely declare that the financial statements set out on pages 97 to 129 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 above named at Kuala Lumpur, Wilayah Persekutuan, on 14 April 2017.

Before me:

COMMISSIONER FOR OATHS

PESURUHJAYA SUMPAH
W.490
S. ARULSAMY
MALAYSIA

16 - Tingkat Bawah Jalan Pudu,
55100 Kuala Lumpur.

# INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(FORMERLY KNOWN AS SHELL REFINING COMPANY (FEDERATION OF MALAYA) 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 2016, and of its financial performance and its cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 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 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 97 to 129.

### 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
# (FORMERLY KNOWN AS SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD)
# (INCORPORATED IN MALAYSIA)
# (COMPANY NO. 3926-U) (continued)

**Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the current 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 |
|---|---|
| **Carrying amount of plant, machinery and equipment**<br><br>*Refer to Note 3 – critical accounting estimates and judgements, Note 2.4 – significant accounting policies, Note 13 – property, plant and equipment.*<br><br>The carrying amount of the Company's plant, machinery and equipment of RM730,035,000 as at 31 December 2016, is net of accumulated impairment losses of RM460,878,000.<br><br>We gave audit focus and attention to this area considering the material amount involved and the significant judgements and estimates made by the Directors over the key assumptions supporting the value in use ('VIU') calculation.<br><br>The Directors undertook a review of the recoverable amount of the refinery assets as described in Note 3 using the VIU method.<br><br>The key assumptions considered in the VIU calculation include projected refining margins, availability and cost of supply of export markets and the useful life of the refinery which remains up till 2026 in its current condition (Euro 2 compliant).<br><br>Based on the assessment of the recoverable amount, the Directors are of the view that no additional/reversal of impairment is required. | We performed the following audit procedures on the VIU calculation which was based on the approved financial budget for 2017 and cash flow projections until 2026.<br><br>• Discussed with the Managing Director, Chief Financial Officer and the Board of Directors on the VIU calculation to understand the key assumptions which formed the basis of the recoverable amount. This included updating our understanding of the key assumptions used to determine the refinery's VIU since the last impairment loss recognised in 2014. The key assumptions are the projected refining margins, the availability and cost of supply to export markets and the useful life of the refinery;<br><br>• Evaluated management's cash flow projections and the process by which they were developed to ensure key inputs are in line with cash flow projections approved by the Board of Directors;<br><br>• Corroborated supporting evidence underlying the projected revenue margin and availability and cost of supply to export markets provided by management to market data and industry research; and<br><br>• 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 additional/reversal of the impairment loss previously recognised.<br><br>Based on the procedures performed, we found the key assumptions and judgments taken by management to be consistent with the supporting evidence received. |

**Information other than the financial statements and auditors' report thereon**

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, Statement on Risk Management and Internal Control, Chairman's Statement, Managing Director's Review, Management Discussion & Analysis, Corporate Governance Statement, Audit Committee Report and Company Properties, 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, 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

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

**Auditors' responsibilities for the audit of the financial statements**

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

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

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

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

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

# INDEPENDENT AUDITORS' REPORT
# TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD (continued)
# (FORMERLY KNOWN AS SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD)
# (INCORPORATED IN MALAYSIA)
# (COMPANY NO. 3926-U) (continued)

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

(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 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.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

## OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 32 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

## OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PricewaterhouseCoopers

**PRICEWATERHOUSECOOPERS**
(No. AF: 1146)
Chartered Accountants

**SUBATHRA A/P GANESAN**
03020/08/2018J
Chartered Accountant

Kuala Lumpur
14 April 2017

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| Revenue | 6 | **8,365,330** | 9,079,637 |
| Purchases | | **(7,550,208)** | (8,265,031) |
| | | **815,122** | 814,606 |
| Other income | 7 | **39,685** | 21,098 |
| Manufacturing expenses | | **(223,002)** | (204,846) |
| Administrative expenses | | **(46,021)** | (58,428) |
| Depreciation and amortisation | | **(195,295)** | (167,577) |
| Other operating gains/(losses) | | **(6,162)** | 5,035 |
| Finance cost | 8 | **(49,054)** | (57,303) |
| Profit before taxation | 9 | **335,273** | 352,585 |
| Taxation | 10 | **0** | (797) |
| Profit for the financial year/Total comprehensive income for the financial year | | **335,273** | 351,788 |
| Earnings per unit of share (sen) – basic | 11 | **112** | 117 |

# STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | **851,282** | 1,029,335 |
| Prepaid lease payments | 14 | **1,824** | 1,843 |
| Intangible assets | 15 | **51,444** | 0 |
| | | **904,550** | 1,031,178 |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | **825,819** | 695,704 |
| Trade receivables | 18 | **950,686** | 24,513 |
| Other receivables and prepayments | 19 | **41,514** | 30,264 |
| Tax recoverable | | **1,050** | 3,803 |
| Amounts receivable from related companies | 20 | | |
| – Trade | | **0** | 672,797 |
| – Non-trade | | **0** | 11,246 |
| Derivative financial assets | 16 | **0** | 305,188 |
| Deposit with licensed banks | 21 | **328,900** | 171,820 |
| Bank balances | 21 | **26,712** | 3,703 |
| | | **2,174,681** | 1,919,038 |
| **TOTAL ASSETS** | | **3,079,231** | 2,950,216 |
| **CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | 22 | **300,000** | 300,000 |
| PSP from RDS* | 23 | **0** | 1,924 |
| Retained earnings | | **710,439** | 375,166 |
| | | **1,010,439** | 677,090 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 24 | **651,879** | 87,027 |
| Amounts payable to related companies | 20 | | |
| – Trade | | **0** | 619,530 |
| – Non-trade | | **0** | 85,515 |
| Borrowings | 16 | **87,324** | 1,031,054 |
| | | **739,203** | 1,823,126 |
| **NON-CURRENT LIABILITY** | | | |
| Borrowings | 16 | **1,329,589** | 450,000 |
| | | **1,329,589** | 450,000 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,079,231** | 2,950,216 |

* *Performance share plan from Royal Dutch Shell Plc*

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 2016

| | Note | Issued and fully paid ordinary shares of RM1 each | | Non-distributable | Distributable | |
|---|---|---|---|---|---|---|
| | | Number of shares '000 | Nominal value RM'000 | PSP reserve RM'000 | Retained earnings RM'000 | Total RM'000 |
| **At 1 January 2016** | | **300,000** | **300,000** | **1,924** | **375,166** | **677,090** |
| **Total comprehensive income for the financial year** | | **0** | **0** | **0** | **335,273** | **335,273** |
| **PSP from RDS** | **23** | | | | | |
| **– recharge by parent** | | **0** | **0** | **(2,983)** | **0** | **(2,983)** |
| **– charge during the year** | | **0** | **0** | **1,059** | **0** | **1,059** |
| **At 31 December 2016** | | **300,000** | **300,000** | **0** | **710,439** | **1,010,439** |
| At 1 January 2015 | | 300,000 | 300,000 | 1,306 | 23,378 | 324,684 |
| Total comprehensive income for the financial year | | 0 | 0 | 0 | 351,788 | 351,788 |
| PSP from RDS | 23 | | | | | |
| – recharge by parent | | 0 | 0 | (1,729) | 0 | (1,729) |
| – charge during the year | | 0 | 0 | 2,347 | 0 | 2,347 |
| At 31 December 2015 | | 300,000 | 300,000 | 1,924 | 375,166 | 677,090 |

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

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **335,273** | 352,585 |
| Adjustments for: | | | |
| Property, plant and equipment | | | |
| – depreciation | | **191,754** | 167,577 |
| – gain on disposal/write-off | | **0** | (26) |
| – write off | | **965** | 948 |
| Interest expense | | **40,098** | 51,022 |
| Interest income | | **(4,376)** | (2,497) |
| Net foreign exchange (gain)/loss – unrealised | | **(11,267)** | 188,517 |
| Net fair value gain on derivative financial instruments | | **(13,195)** | (186,623) |
| Write back of allowance for inventories | | **(4,917)** | (75,823) |
| (Reversal of allowance)/allowance for doubtful debts | | **(759)** | 343 |
| Amortisation of prepaid lease payments | | **19** | 21 |
| Amortisation of intangible assets | | **3,523** | 0 |
| PSP from RDS | | **1,059** | 2,347 |
| Bad debts written off | | **0** | 110 |
| Operating profit before changes in working capital | | **538,177** | 498,501 |
| Changes in working capital: | | | |
| Inventories | | **(125,198)** | 181,302 |
| Trade, other receivables and amounts receivable from related companies | | **(252,623)** | (26,503) |
| Trade, other payables and amounts payable to related companies | | **(172,650)** | 127,925 |
| Cash (used in)/generated from operations | | **(12,294)** | 781,225 |
| Interest received | | **4,376** | 2,497 |
| Net tax refund | | **2,753** | (224) |
| Net cash flows (used in)/generated from operating activities | | **(5,165)** | 783,498 |

| | Note | 2016 RM'000 | 2015 RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Property, plant and equipment | | | |
| – additions | | **(14,773)** | (98,165) |
| – proceeds from disposal | | **0** | 26 |
| Intangible asset | | | |
| – additions | | **(12,694)** | 0 |
| Net cash flows used in investing activities | | **(27,467)** | (98,139) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | **(1,480,440)** | (916,740) |
| Net proceeds from borrowings | | **1,413,043** | 450,000 |
| Proceeds from settlement of derivatives | | **318,383** | 0 |
| Interest paid | | **(38,425)** | (52,783) |
| Prepaid term loan instalments | | **(11,096)** | 0 |
| Net cash flows generated from/(used in) financing activities | | **201,465** | (519,523) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **168,833** | 165,836 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR** | | **175,523** | 8,737 |
| **EFFECTS OF EXCHANGE RATE CHANGES** | | **160** | 950 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR** | 21 | **344,516** | 175,523 |

During the financial year ended 31 December 2016, the Company acquired property, plant and equipment with an aggregate cost of RM14,666,252 (2015: RM93,038,510). Cash payments of RM14,773,203 (2015: RM98,164,510) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM8,050,049 (2015: RM8,157,000) is included within accruals for capital expenditure as disclosed in Note 24.

The Company also acquired intangible assets with an aggregated cost of RM54,967,166 (2015: nil) during the financial year, for which cash payments of RM12,694,166 (2015: nil) were made. The balance unpaid as at 31 December 2016 amounting to RM42,273,000 (2015: nil) is included within accruals for capital expenditure as disclosed in Note 24.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## 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").

On 22 December 2016, Malaysia Hengyuan International Limited, a subsidiary of Shandong Hengyuan Petrochemical Group Company Limited, acquired 51% of the issued and paid up share capital of the Company from Shell Overseas Holdings Limited, a subsidiary of Royal Dutch Shell Plc. Pursuant to this, the Company regards Malaysia Hengyuan International Limited, 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's name was subsequently changed from Shell Refining Company (Federation of Malaya) Berhad to Hengyuan Refining Company Berhad effective 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, 1965 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.

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 2016, 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.

# 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 2016 are as follows:

- Amendments to MFRS 101 'Presentation of financial statements' – Disclosure initiative.
- Amendments to MFRS 116 & MRFS 138 'Clarification of Acceptable Methods of Depreciation and Amortisation.
- Annual Improvements to MFRS 2012 – 2014 Cycle.

The adoption of the above amendments did not have any significant impact on the financial position or results of the Company for the current period or any prior period.

### (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 2017

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

(ii) Financial year beginning on 1 January 2018

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

(iii) Financial year beginning on 1 January 2019

- MFRS 16 'Leases'

The adoption of the above standards, amendments to published standards and interpretations to existing standards are not expected to result in any significant changes to the Company's financial position or results. The Company will continue to assess the future impact arising from the adoption of MFRS 9, MFRS 15 and MFRS 16 between now and their respective effective dates and shall disclose the impact of the future adoption of these new standards if it results in a significant change to the Company's financial position and results.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 REVENUE RECOGNITION

#### (a) Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities.

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 recognized 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 recognized using the original effective interest rate.

#### (c) Other income

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

### 2.3 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.

### 2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation deemed as cost, less accumulated depreciation and accumulated impairment losses. 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 2.14 on borrowing costs).

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. Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.5 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.

## 2.6 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.

## 2.7 IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss and any subsequent reversal of impairment loss are recognized in the profit or loss.

## 2.8 LEASES

### (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 capitalized 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 are included in borrowings.

### (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.

## 2.9 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 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 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.

### 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 SHARE CAPITAL

**(a) Classification**

Ordinary shares are classified as equity.

**(b) Dividend distribution**

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

### 2.13 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.

### 2.14 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.

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

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

### 2.15 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 realized or the deferred tax liability is settled.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.15 CURRENT AND DEFERRED INCOME TAX (CONTINUED)

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can 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.

## 2.16 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 and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

### (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) 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.

## 2.17 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

## 2.18 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.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.19 FOREIGN CURRENCIES

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

**(a) Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

**(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. 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.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss within 'finance cost'. Foreign exchange gains and losses that relate to the acquisition of inventories are presented in profit and loss within 'purchases'. All other foreign exchange gains and losses are recognized within 'other operating gains/ losses'.

## 2.20 FINANCIAL ASSETS

**(a) Classification**

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

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

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

**(ii) Loans and receivables**

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

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## 2.20 FINANCIAL ASSETS (CONTINUED)

### (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 amortized 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.

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

**Assets carried at amortized 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 reorganization.

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.

When an asset 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 investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.21 FINANCIAL LIABILITIES

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

**(a) 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.

**(b) Other financial liabilities.**

The Company's other financial liabilities include trade payables, other payables, intercompany payables, loans 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.

### 2.22 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.

### 2.23 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.

### 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), operates 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 are recognised as an expense in the 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 is 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 are included in the assumptions about the number of options that are expected to vest. At the end of reporting date, RDS revises its estimates of the number of share options that are expected to vest. It recognizes the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity as an employees' share option scheme reserve.

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

## 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.

**Plant, machinery and equipment – impairment review**

The Company reviews the carrying values of its plant and equipment whenever events or changes in circumstances indicate that the impairment loss recognised in prior years may no longer exist or may have decreased based on 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.

In view of the gradual recovery of refining margins during the financial year, the Directors undertook a review of the carrying value of the plant, machinery and equipment of RM730,035,000 net of accumulated impairment loss of RM460,878,000. 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. Key assumptions considered in the VIU calculations include projected refining margins, availability and cost of supply to export markets. The useful life of the plant, machinery and equipment remains up till 2026 in its current condition (Euro 2 compliant).

As disclosed in Note 1, the Company had a change in its controlling shareholder during the year, being Shandong Hengyuan Petrochemical Company Limited ('SHPC'). Subsequent to the financial year end, SHPC has confirmed its intention to carry out the Euro 4M and Euro 5 upgrades to the refinery and management is assessing the viability of the said upgrades, the expected decision of which will be made in the next financial year.

The VIU calculation has not included the financial impact of the potential Euro 4M and Euro 5 upgrades to the refinery. The positive refining margin in the current year remains uncertain going forward due to market stabilisation initiatives and the impending Euro 4M and Euro 5 capital expenditure decision which may extend the useful life of the refinery. 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 additional/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 minimize 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 long-term borrowings arise directly from the Company's operations. Straightforward derivative financial instruments are utilized 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 risks**

**(i) Foreign currency exchange risk**

The objectives of the Company's currency risk management policies are 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 the foreign currency transactions entered into in currencies other than its functional currency. 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 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. There are no forward exchange swaps and forward contracts outstanding as of 31 December 2016.

## 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### (a) Market risks (Continued)

#### (i) Foreign currency exchange risk (Continued)

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

| | Increase/(Decrease) in profit after tax, equity and net assets | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| USD strengthens by 10% | **(139,799)** | (92,487) |
| USD weakens by 10% | **139,799** | 92,487 |

#### (ii) Interest rate risk

The Company finances its operations through a mixture of retained earnings and bank borrowings. The Company's interest rate risk arises from borrowings and is managed in compliance with the treasury policy of the Company.

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 and 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 | |
|---|---|---|
| | **2016** | **2015** |
| | **RM'000** | **RM'000** |
| 100 basis points increase in interest rate | **(10,769)** | (11,108) |
| 100 basis points decrease in interest rate | **10,769** | 11,108 |

### (b) Credit risk

Credit risk arises from credit exposures to third party receivables and related companies, and cash and cash equivalents.

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.

The Company seeks to invest cash assets safely and profitably. Deposits are placed only with financial institutions with strong long-term credit ratings based on independent rating agencies.

92% (2015: 95%) of the Company's total receivables at the reporting date are due from two (2015: two) major customers within the oil & 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.

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

# 4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

## (c) Liquidity and cash flow risks

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 16.1.

As at 31 December 2016, there are outstanding borrowings amounting to RM1,416,913,000 (2015: RM1,481,054,000). The Company plans to repay the debt obligation using cash flows generated from operations.

The table below summarises the maturity brackets of undiscounted cash flows contractually payable under financial liabilities as at reporting date:

| | Within 1 year RM'000 | Between 1 to 2 years RM'000 | Between 2 to 5 years RM'000 | Total RM'000 |
|---|---|---|---|---|
| **At 31 December 2016** | | | | |
| Trade and other payables excluding statutory liabilities | **642,354** | **0** | **0** | **642,354** |
| Term loan | **150,000** | **340,379** | **1,187,360** | **1,677,739** |
| **At 31 December 2015** | | | | |
| Trade and other payables excluding statutory liabilities | 86,070 | 0 | 0 | 86,070 |
| Amounts due to related companies | 705,045 | 0 | 0 | 705,045 |
| Term loan | 1,061,016 | 459,963 | 0 | 1,520,979 |
| Cross currency interest rate swaps outflow | 731,637 | 0 | 0 | 731,637 |
| Cross currency interest rate swaps (inflow) | (1,036,825) | 0 | 0 | (1,036,825) |

## (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:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Total borrowings | **1,416,913** | 1,481,054 |
| Total equity | **1,010,439** | 677,090 |
| Total borrowings | **1,416,913** | 1,481,054 |
| Total capital | **2,427,352** | 2,158,144 |
| Gearing ratio | **58%** | 69% |

The borrowings of the Company are subject to the banks' covenants, which include debt service cover ratios (2015: none), which the Company has complied with.

## 5 FAIR VALUE MEASUREMENTS

**Financial instruments carried at fair value**

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 2015 are detailed below:

| | **As at 31 December 2015** | |
|---|---|---|
| **Derivatives** | **Contract Value USD'000** | **Fair Value RM'000** |
| Cross currency interest rate swaps ("CCIRS") with less than 1 year | 240,000 | 305,188 |

The following table presents the Company's assets and liabilities for recurring fair value measurements recognised through profit or loss:

| | **Level 1 RM'000** | **Level 2 RM'000** | **Level 3 RM'000** | **Total RM'000** |
|---|---|---|---|---|
| Cross currency interest rate swaps | | | | |
| At 31 December 2016 | **0** | **0** | **0** | **0** |
| At 31 December 2015 | 0 | 305,188 | 0 | 305,188 |

During the year, there were no transfers between Level 1 & 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 counterparty banks.

## 6 REVENUE

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Sale of oil products: | | |
| – refined | **8,363,891** | 9,074,869 |
| – crude oil | **1,439** | 4,768 |
| | **8,365,330** | 9,079,637 |

## 7 OTHER INCOME

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Operating and transport fees | **13,669** | 18,601 |
| Interest income | **4,376** | 2,497 |
| Cost recovery from intellectual property buy-out | **21,640** | 0 |
| | **39,685** | 21,098 |

As part of the acquisition of 51% of the issued and paid up share capital of the Company by MHIL from 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

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Interest expense: | | |
| – term loan | **32,427** | 29,754 |
| – short-term borrowings | **1,285** | 9,491 |
| – cross-currency interest rate swap ('CCIRS') | **6,386** | 11,777 |
| Total interest expense | **40,098** | 51,022 |
| Foreign exchange loss on term loans: | | |
| – unrealised | **2,193** | 191,280 |
| – realised | **19,878** | 0 |
| Fair value gain on derivative financial instruments | **(13,195)** | (186,623) |
| Others | **80** | 1,624 |
| | **49,054** | 57,303 |

## 9 PROFIT BEFORE TAXATION

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| The profit before taxation is arrived at after charging/(crediting): | | |
| Auditors' remuneration: | | |
| – statutory audit fees | **390** | 224 |
| – audit-related fees | **48** | 218 |
| Cost of inventories | **7,206,687** | 7,917,286 |
| Staff cost: | | |
| – salaries, bonus and allowances | **67,620** | 60,385 |
| – defined contribution plan | **11,516** | 9,586 |
| – other employee benefits | **8,897** | 5,599 |
| – share based payments | **1,059** | 2,347 |
| Write back of allowance for inventories | **(4,917)** | (75,823) |
| Foreign exchange (gain)/loss | | |
| – realised | **52,271** | 62,575 |
| – unrealised | **(11,267)** | 189,467 |
| Net fair value gain on derivative financial instrument | **(13,195)** | (186,623) |
| Depreciation of property, plant & equipment | **191,754** | 167,577 |
| Gain on disposal of property, plant & equipment | **0** | (26) |
| Property, plant and equipment written off | **965** | 948 |
| Amortisation of prepaid lease payments | **19** | 21 |
| Amortisation of intangible asset | **3,523** | 0 |
| Bad debts written off | **0** | 110 |
| (Reversal of allowance)/Allowance for doubtful debts | **(759)** | 343 |

## 10 TAXATION

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Current tax – Malaysian tax | | |
| – current financial year | **0** | (797) |
| Deferred taxation (Note 25) | | |
| – origination and reversal of temporary differences | **0** | 0 |
| | **0** | (797) |

The numerical reconciliation between the effective tax rate and the applicable statutory tax rate is as follows:

| | 2016 % | 2015 % |
|---|---|---|
| Applicable statutory tax rate | **24** | 25 |
| Tax effects in respect of: | | |
| – expenses not deductible for tax purposes | **3** | 1 |
| – utilisation of tax losses/deductible temporary differences | **(27)** | (26) |
| Effective tax rate | **0** | 0 |

The applicable statutory tax rate was reduced from 25% to 24% in the current year in accordance with the legislation in Malaysia.

## 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.

| | **2016** | **2015** |
|---|---|---|
| Profit for the financial year (RM'000) | **335,273** | 351,788 |
| Weighted average number of ordinary shares in issue ('000) | **300,000** | 300,000 |
| Basic earnings per unit of share (sen) | **112** | 117 |

## 12 DIRECTORS' REMUNERATION

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| Fees | **421** | 456 |
| Salaries, bonus and allowances | **1,141** | 1,002 |
| Defined contribution plan | **108** | 138 |
| Share based payment | **1** | 52 |
| | **1,671** | 1,648 |

## 13 PROPERTY, PLANT AND EQUIPMENT

| **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 | **0** | **0** | **0** | **0** | **14,666** | **14,666** |
| Write-off | **0** | **0** | **0** | **(5,983)** | **0** | **(5,983)** |
| Reclassification | **0** | **0** | **0** | **2,177** | **(2,177)** | **0** |
| At 31 December | **50,598** | **15,654** | **109,242** | **3,427,178** | **21,434** | **3,624,106** |
| **Accumulated depreciation** | | | | | | |
| At 1 January | **0** | **13,834** | **59,173** | **2,052,203** | **0** | **2,125,210** |
| Charge for the financial year | **0** | **338** | **2,463** | **188,953** | **0** | **191,754** |
| Write-off | **0** | **0** | **0** | **(5,018)** | **0** | **(5,018)** |
| At 31 December | **0** | **14,172** | **61,636** | **2,236,138** | **0** | **2,311,946** |
| **Accumulated impairment losses** | | | | | | |
| At 1 January/At 31 December | **0** | **0** | **0** | **460,878** | **0** | **460,878** |
| **Net book value** | | | | | | |
| At 31 December | **50,598** | **1,482** | **47,606** | **730,162** | **21,434** | **851,282** |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016 (continued)

## 13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| 2015 | 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 | 3,336,023 | 66,576 | 3,578,093 |
| Additions | 0 | 0 | 0 | 0 | 93,039 | 93,039 |
| Disposals | 0 | 0 | 0 | (263) | 0 | (263) |
| Write-off | 0 | 0 | 0 | (55,446) | 0 | (55,446) |
| Reclassification | 0 | 0 | 0 | 150,670 | (150,670) | 0 |
| At 31 December | 50,598 | 15,654 | 109,242 | 3,430,984 | 8,945 | 3,615,423 |
| **Accumulated depreciation** | | | | | | |
| At 1 January | 0 | 13,496 | 56,698 | 1,942,200 | 0 | 2,012,394 |
| Charge for the financial year | 0 | 338 | 2,475 | 164,764 | 0 | 167,577 |
| Disposals | 0 | 0 | 0 | (263) | 0 | (263) |
| Write-off | 0 | 0 | 0 | (54,498) | 0 | (54,498) |
| At 31 December | 0 | 13,834 | 59,173 | 2,052,203 | 0 | 2,125,210 |
| **Accumulated impairment losses** | | | | | | |
| At 1 January/At 31 December | 0 | 0 | 0 | 460,878 | 0 | 460,878 |
| **Net book value** | | | | | | |
| At 31 December | 50,598 | 1,820 | 50,069 | 917,903 | 8,945 | 1,029,335 |

Property, plant and equipment as at 31 December 2016 are pledged as security for borrowings as disclosed in Note 16 (2015: nil).

## 14 PREPAID LEASE PAYMENTS

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| As at 1 January | **1,843** | 1,864 |
| Amortisation of prepaid lease payments | **(19)** | (21) |
| As at 31 December | **1,824** | 1,843 |

## 15 INTANGIBLE ASSETS

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **Cost** | | |
| At 1 January | **0** | 0 |
| Addition | **54,967** | 0 |
| At 31 December | **54,967** | 0 |
| **Accumulated amortisation** | | |
| At 1 January | **0** | 0 |
| Charge for the financial year | **3,523** | 0 |
| At 31 December | **3,523** | 0 |
| **Net book value** | | |
| At 31 December | **51,444** | 0 |

Intangible assets relate to costs incurred by the Company in setting up its standalone IT systems following the divestment by SOHL during the financial year as disclosed in Note 1.

## 16 BORROWINGS/DERIVATIVE FINANCIAL INSTRUMENTS

### 16.1 Borrowings

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Term loans (unsecured) | **0** | 1,481,054 |
| Term loans (secured) | | |
| – Term Loan I | **884,529** | 0 |
| – Term Loan II | **532,384** | 0 |
| | **1,416,913** | 1,481,054 |
| Less: Amount repayable within 12 months | **(87,324)** | (1,031,054) |
| Amount repayable after 12 months | **1,329,589** | 450,000 |

On 7 December 2015, the Company obtained a new RM450 million term loan with an interest rate of KLIBOR + 0.6% per annum (Kuala Lumpur Interbank Offered Rate) to refinance a term loan that was repaid on 28 December 2015. Interest was payable over six quarterly repayments with a bullet repayment of the loan principal payable on 7 June 2017. The loan agreement required repayment of the outstanding balance in the event that the shareholding of SOHL fell below 51% of the issued and paid up share capital of the Company.

In 2011, the Company obtained a USD240 million 5-year term loan facility primarily to finance a capital expenditure project. The term loan carried interest based on LIBOR + 0.75% per annum (London Interbank Offered Rate). The interest on this term loan was payable over twenty quarterly payments whilst the principal amount was originally payable on 14 September 2016. This term loan agreement also required a 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. During the financial year, the Company has renegotiated the repayment schedule of this term loan with the lender and has subsequently repaid USD60 million and USD180 million on 15 June 2016 and 22 December 2016 respectively.

As at 31 December 2015, the Company had in place revolving credit facilities amounting to RM540 million with local banks for working capital purposes. These revolving credit facilities were unutilised as at 31 December 2015. The facilities carried interest rates at a range of COF + 0.25% (Cost of Funds) to KLIBOR + 0.3%.

## 16 BORROWINGS/DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### 16.1 Borrowings (Continued)

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 sales between SOHL and MHIL, using new term loan facilities that were drawndown on the same date. Details of these new term loans are set out below:

**USD200 million Term Loan I**

This loan was fully drawndown during the 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;

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 million Term Loan II**

The Company drew down USD120,119,093 of this term loan during the 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), as required by 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 3.62% to 5.27% (2015: 1.36% to 4.44%) per annum.

The fair value of borrowings outstanding as at 31 December 2015 and 31 December 2016 approximated its carrying amount.

# 16 BORROWINGS/DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

## 16.2 Derivative financial instrument – Cross currency interest rate swap ('CCIRS')

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Derivative financial assets | **0** | 305,188 |

The Company previously entered into CCIRS to hedge against the fluctuations in USD/RM exchange rate on its USD term loan. The fair values were obtained from the counterparty banks. Details are as follows:

| Contract Amount | Principal exchange rate | Interest rate swapped | Period entered |
|---|---|---|---|
| USD 60 Million | USD 1 = RM 3.03 | Pay [1]KLIBOR – 0.62%<br>Receive [2]LIBOR + 0.75% | 27 February 2012 to<br>14 September 2016 |
| USD 60 Million | USD 1 = RM 3.03 | Pay [1]KLIBOR + 0.68%<br>Receive [2]LIBOR + 0.75% | 27 February 2012 to<br>14 September 2016 |
| USD 120 Million | USD 1 = RM 3.05 | Pay [1]KLIBOR – 0.56%<br>Receive [2]LIBOR + 0.75% | 14 September 2011 to<br>14 September 2016 |

After executing the swap, the Company's effective interest rate at the end of the reporting period ranged from 3.16% to 3.28% per annum.

| Financial instruments | Functional currency/ currency exposure | Applicable interest rate | Total carrying amount RM'000 | Effective interest rate at end of reporting date % |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| CCIRS | RM/USD | [1]KLIBOR - 0.56% | 152,607 | 3.28 |
| | | [1]KLIBOR - 0.62% | 76,918 | 3.22 |
| | | [1]KLIBOR - 0.68% | 75,663 | 3.16 |

The Company did not have any outstanding derivative financial instrument as at 31 December 2016.

[1]KLIBOR – Kuala Lumpur Inter Bank Offered rate
[2]LIBOR – London Inter Bank Offered rate

## 17 INVENTORIES

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Crude oil | **462,065** | 430,810 |
| Less: Allowance for inventories | **0** | (2,756) |
| | **462,065** | 428,054 |
| Petroleum products | **339,134** | 248,300 |
| Less: Allowance for inventories | **(482)** | (1,694) |
| | **338,652** | 246,606 |
| Materials | **25,102** | 21,993 |
| Less: Allowance for inventories | **0** | (949) |
| | **25,102** | 21,044 |
| | **825,819** | 695,704 |

Included within crude oil is stock in transit as at 31 December 2016 of RM 70,833,835 (2015: RM115,405,927).

Inventories as at 31 December 2016 are pledged in favour of a vendor to secure credit lines for crude oil purchases (2015: N/A). Amounts in excess of the vendor credit lines are pledged as security for borrowings as disclosed in Note 16 (2015: nil).

## 18 TRADE RECEIVABLES

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Trade receivables: | | |
| – Neither past due nor impaired | **926,486** | 15,060 |
| – Past due but not impaired | **24,200** | 9,453 |
| Trade receivables (gross) | **950,686** | 24,513 |

The credit terms range between 15 to 30 days (2015: 15 to 30 days).

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.

As at 31 December 2016, trade receivables amounting to RM24,200,000 (2015: RM9,453,000) were past due but not impaired. Management is of the view that these amounts will be recoverable based on historical collection trends.

## 18 TRADE RECEIVABLES (CONTINUED)

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

| | Less than 30 days RM'000 | Between 30 to 180 days RM'000 | Over 180 days RM'000 | Total RM'000 |
|---|---|---|---|---|
| **As at 31 December 2016** | | | | |
| Past due but not impaired | **4,979** | **15,006** | **4,215** | **24,200** |
| **As at 31 December 2015** | | | | |
| Past due but not impaired | 6,194 | 2,651 | 608 | 9,453 |

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

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| As at 1 January | **0** | 9 |
| Reversal of allowance for doubtful debts | **0** | (9) |
| As at 31 December | **0** | 0 |

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 2016 are pledged in favour of a vendor to secure credit lines for crude oil purchases (2015: N/A). Amounts in excess of the vendor credit lines are pledged as security for borrowings as disclosed in Note 16 (2015: nil).

## 19 OTHER RECEIVABLES AND PREPAYMENTS

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Goods and Service Tax ('GST') receivable | **0** | 28,925 |
| Other receivables | **29,610** | 827 |
| Prepayments | **11,904** | 512 |
| | **41,514** | 30,264 |

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

## 20 AMOUNTS RECEIVABLE FROM/(PAYABLE TO) RELATED COMPANIES

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 have been classified within trade and other receivables/ payables. Consequently, there are no balances receivable from/payable to related companies as at 31 December 2016. Amounts receivable from/payable to related companies were unsecured, interest free and repayable within 30 days.

As at 31 December 2015, the amounts receivable from related companies amounting to RM1,106,372 were past due but not impaired. Ageing analysis of these amounts receivable from related companies is as follows:

| | Less than 30 days RM'000 | Between 30 to 180 days RM'000 | Over 180 days RM'000 | Total RM'000 |
|---|---|---|---|---|
| **As at 31 December 2015** | | | | |
| Past due but not impaired | 0 | 0 | 1,106 | 1,106 |
| Impaired | 0 | 0 | 759 | 759 |

All past due balances as at 31 December 2015 have been fully recovered during the financial year ended 31 December 2016.

Movement in the allowance for impairment of amounts receivables from related companies is as follows:

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| As at 1 January | **759** | 407 |
| Reversal of allowance for doubtful debts | **(759)** | (407) |
| Allowance for doubtful debts | **0** | 759 |
| As at 31 December | **0** | 759 |

## 21 CASH AND CASH EQUIVALENTS

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Deposits with licensed banks | **328,900** | 171,820 |
| Bank balances | **26,712** | 3,703 |
| Less: Restricted cash | **(11,096)** | 0 |
| | **344,516** | 175,523 |

The deposits held at call with banks earn interest at a rate of 3.17% (2015: 3.5%) and matured on 3 January 2017 (2015: 4 January 2016). Included within bank balances is an amount held in a debt service accrual account of RM11,096,000 (2015: nil), as required by the new term loan agreements.

## 22 SHARE CAPITAL

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **Authorised 300,000,000 units of ordinary shares of RM1 each** | | |
| At 1 January/At 31 December | **300,000** | 300,000 |
| **Issued and fully paid 300,000,000 units of ordinary shares of RM1 each** | | |
| At 1 January/At 31 December | **300,000** | 300,000 |

## 23 PSP FROM 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 have been repaid by the Company to RDS during the financial year.

## 24 TRADE AND OTHER PAYABLES

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| Trade payables | **278,935** | 32,332 |
| Accruals for crude oil and petroleum products | **245,244** | 1,447 |
| Sundry accruals | **48,663** | 31,781 |
| Accruals for consumables and services | **19,189** | 13,310 |
| Accruals for capital expenditure | **50,323** | 8,157 |
| GST payable | **9,525** | 0 |
| | **651,879** | 87,027 |

The Company's trade payables are unsecured, except for a balance amounting to RM240,270,818 (2015: nil) which is secured by a charge against the Company's hydrocarbon inventories and receivables as mentioned in Notes 17 and 18. The credit terms for trade payables range from 30 to 45 days (2015: 30 to 45 days).

## 25 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:

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| As at 1 January | **0** | 0 |
| Credited/(charged) to profit or loss: | | |
| – property, plant and equipment | **(94,048)** | 17,828 |
| – intangible asset | **(3,047)** | 0 |
| – allowance for doubtful debts | **(182)** | 180 |
| – allowance for inventories | **(1,180)** | (18,074) |
| – unused tax losses | **98,837** | 0 |
| – performance share plan | **(380)** | 66 |
| | **0** | 0 |
| As at 31 December | **0** | 0 |
| Deferred tax liabilities (before offsetting): | | |
| – property, plant and equipment | **(95,906)** | (1,858) |
| – intangible assets | **(3,047)** | 0 |
| | **(98,953)** | (1,858) |
| Offsetting | **98,953** | 1,858 |
| As at 31 December (after offsetting) | **0** | 0 |
| Deferred tax assets (before offsetting): | | |
| – allowance for doubtful debts | **0** | 182 |
| – allowance for inventories | **116** | 1,296 |
| – performance share plan | **0** | 380 |
| – unused tax losses | **98,837** | 0 |
| | **98,953** | 1,858 |
| Offsetting | **(98,953)** | (1,858) |
| As at 31 December (after offsetting) | **0** | 0 |

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

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| Tax losses carried forward | **267,730** | 647,655 |
| Unabsorbed reinvestment allowance | **495,177** | 495,177 |

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.

## 26 SIGNIFICANT RELATED PARTIES DISCLOSURES

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 affiliated companies.

Below are the significant related party transactions for the financial year, which were carried out on agreed terms:

| | | | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|---|---|
| **(a)** | **Income:** | | | |
| | (i) | Sale of refined products to subsidiaries of RDS | **7,992,712** | 8,643,998 |
| | (ii) | Tariff revenue on the use of properties/facilities from subsidiaries of RDS | **17,405** | 21,977 |
| | (iii) | Intellectual property buyout from subsidiaries of RDS | **21,640** | 0 |
| **(b)** | **Expenses:** | | | |
| | (i) | Purchase of crude and products from subsidiaries of RDS | **(7,605,245)** | (8,206,797) |
| | (ii) | Central management and administrative charges by subsidiaries of RDS | **(53,570)** | (50,377) |
| **(c)** | **Refinery process licence fee charged by a subsidiary of RDS** | | **(11,210)** | 0 |
| **(d)** | **Outstanding balances:** | | | |
| | (i) | Receivables from subsidiaries of RDS | **0** | 682,451 |
| | (ii) | Payables to subsidiaries of RDS | **0** | (665,962) |

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.

| | 2016<br>RM'000 | 2015<br>RM'000 |
|---|---|---|
| Compensation for key management personnel: | | |
| – salaries, bonus and allowances | **5,298** | 5,890 |
| – fees | **421** | 441 |
| – defined contribution plan | **362** | 978 |
| – benefits in kind | **15** | 225 |
| – shared based payments | **74** | 307 |

## 27 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.

## 28 CAPITAL COMMITMENTS

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

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| Approved and contracted for | **20,705** | 0 |
| Approved but not contracted for | **30,451** | 22,940 |

## 29 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 recognized as a single business and geographical segment.

## 30 FINANCIAL INSTRUMENTS BY CATEGORY

| | 2016 RM'000 | 2015 RM'000 |
|---|---|---|
| **Financial assets as per statement of financial position** | | |
| **Loans and receivables** | | |
| Trade and other receivables excluding prepayments (Note 18, 19) | **980,296** | 25,340 |
| Amounts receivable from related companies (Note 20) | **0** | 684,043 |
| Cash and cash equivalents (Note 21) | **344,516** | 175,523 |
| | **1,324,812** | 884,906 |
| **Assets at fair value through profit or loss** | | |
| Derivative financial assets | **0** | 305,188 |
| **Financial liabilities as per statement of financial position** | | |
| **Other financial liabilities at amortised cost** | | |
| Trade and other payables excluding statutory liabilities (Note 24) | **642,354** | 86,070 |
| Amounts payable to related companies (Note 20) | **0** | 705,045 |
| Borrowings (Note 16) | **1,416,913** | 1,481,054 |
| | **2,059,267** | 2,272,169 |

## 31 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 14 April 2017.

## 32 SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES BERHAD LISTING REQUIREMENTS

The following analysis of realised and unrealised retained earnings is prepared based on the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosures Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by the Malaysian Institute of Accountants.

| | **2016 RM'000** | **2015 RM'000** |
|---|---|---|
| Realised | **715,324** | 497,743 |
| Unrealised | **(4,885)** | (122,577) |
| Retained earnings as at 31 December | **710,439** | 375,166 |

The unrealised losses disclosed above relate to the net unrealized foreign currency exchange losses, net of unrealised gains on derivative financial instruments.

# COMPANY PROPERTIES
AS AT 31 DECEMBER 2016

| 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 | 76,964 | A club house and training centre | 52 years | 01.01.1991 | 1,077 | | 1,462 | 2,539 |
| 2 | Freehold | Lot 3 HS(D) 1310 Jln Pantai, Port Dickson | 6,284,183 | Refinery | 53 years | 01.01.1991 | 22,194 | 1,482 | 38,370 | 62,046 |
| 3 | Freehold | Lot 138 GRN 51925 Port Dickson | 39,116 | Oil Spill Response Centre | 52 years | 01.01.1991 | 262 | | 364 | 626 |
| 4 | Freehold | Lot 798 GM 1458 Kg Arab, Port Dickson | 49,959 | Refinery | 28 years | 01.01.1991 | 140 | | | 140 |
| 5 | Freehold | Lot 196 GM 1522 Kg Gelam, Port Dickson | 242,847 | Refinery | 29 years | 01.01.1991 | 687 | | | 687 |
| 6 | Freehold | Lot 195 GM 1521 Kg Gelam, Port Dickson | 247,072 | Refinery | 29 years | 01.01.1991 | 694 | | | 694 |
| 7 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 98,010 | Refinery | 30 years | 01.01.1991 | 314 | | | 314 |
| 8 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655,35656 35658, 35657 Port Dickson | 112,490 | Refinery | 30 years | 01.01.1991 | 360 | | | 360 |
| 9 | Freehold | Lot 12284 &12290 GM 1961 – 1962 Port Dickson | 112,019 | Refinery | 21 years | 31.08.2000 | 480 | | | 480 |
| 10 | Freehold | Lot 596 GRN 244911 Port Dickson | 100,729 | Crude Tank Farm | 21 years | 31.08.2000 | 593 | | | 593 |
| 11 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 132,030 | Crude Tank Farm | 29 years | 01.01.1991 | 423 | | | 423 |
| 12 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 212,590 | Crude Tank Farm | 29 years | 01.01.1991 | 681 | | | 681 |
| 13 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 118,439 | Crude Tank Farm | 30 years | 01.01.1991 | 379 | | | 379 |

# COMPANY PROPERTIES AS AT 31 DECEMBER 2016

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 14 | Freehold | PT 1369, PT 1370<br>PT 10747, PT 1371<br>HSD 35655, 35656<br>35658, 35657<br>Port Dickson | 141,570 | Crude Tank Farm | 30 years | 01.01.1991 | 454 | | | 454 |
| 15 | Freehold | PT 1369, PT 1370,<br>PT 10747, PT 1371<br>HSD 35655, 35656<br>35658, 35657<br>Port Dickson | 124,146 | Crude Tank Farm | 30 years | 01.01.1991 | 398 | | | 398 |
| 16 | Freehold | PT 1369, PT 1370<br>PT 10747, PT 1371<br>HSD 35655, 35656<br>35658, 35657<br>Port Dickson | 141,047 | Crude Tank Farm | 30 years | 01.01.1991 | 451 | | | 451 |
| 17 | Freehold | PT 1369, PT 1370<br>PT 10747, PT 1371<br>HSD 35655, 35656<br>35658, 35657<br>Port Dickson | 103,455 | Crude Tank Farm | 30 years | 01.01.1991 | 331 | | | 331 |
| 18 | Freehold | PT 1369, PT 1370<br>PT 10747, PT 1371<br>HSD 35655, 35656<br>35658, 35657<br>Port Dickson | 123,884 | Crude Tank Farm | 30 years | 01.01.1991 | 397 | | | 397 |
| 19 | Freehold | Lot 5471 – 5494<br>GM 994 – 1017<br>Lot 5496 – 5540<br>GM 1019 – 1063<br>Port Dickson | 188,799 | Crude Tank Farm | 19 years | 31.08.2000 | 1,259 | | | 1,259 |
| 20 | Freehold | Lot 950 GM 2721<br>Port Dickson | 104,819 | Crude Tank Farm | 20 years | 31.08.2000 | 727 | | | 727 |
| 21 | Freehold | Lot 12425 – 12456<br>GRN 146936 – 146967<br>Lot 5441 HSD 4418<br>Lot 12458 – 12486<br>GRN 146968 – 146996<br>Port Dickson | 212,544 | Crude Tank Farm | 20 years | 31.08.2000 | 1,216 | | | 1,216 |
| 22 | Freehold | Lot 834 GRN 70791<br>Port Dickson | 348,481 | Crude Tank Farm | 21 years | 31.08.2000 | 1,705 | | | 1,705 |
| 23 | Freehold | Lot 6674 GM 2774<br>Port Dickson | 115,173 | For Pipeline to Jetty | 27 years | 01.01.1991 | 585 | | | 585 |
| 24 | Freehold | Lot 1323 GM 1167<br>Port Dickson | 178,596 | For Pipeline to Jetty | 27 years | 01.01.1991 | 907 | | | 907 |
| 25 | Freehold | Lot 6671 GM 2771<br>Port Dickson | 91,737 | For Pipeline to Jetty | 27 years | 01.01.1991 | 466 | | | 466 |

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 26 | Freehold | Lot 6672 GM 868<br>Kg Gelam<br>Port Dickson | 59,383 | For Pipeline to Jetty | 27 years | 01.01.1991 | 359 | | | 359 |
| 27 | Freehold | Lot 192 GM 1398<br>Kg Gelam<br>Port Dickson | 148,104 | For Pipeline to Jetty | 28 years | 01.01.1991 | 443 | | | 443 |
| 28 | Freehold | Lot 247 GM 1241<br>Port Dickson | 120,334 | For Pipeline to Jetty | 28 years | 01.01.1991 | 332 | | | 332 |
| 29 | Freehold | Lot 191 GM 1505<br>Kg Gelam<br>Port Dickson | 134,491 | For Pipeline to Jetty | 29 years | 01.01.1991 | 620 | | | 620 |
| 30 | Freehold | Lot 190 GM 1289<br>Kg Gelam<br>Port Dickson | 131,769 | For Pipeline to Jetty | 29 years | 01.01.1991 | 577 | | | 577 |
| 31 | Freehold | Lot 909 GRN 69309<br>Port Dickson | 86,766 | For Pipeline to Jetty | 25 years | 01.01.1991 | 431 | | | 431 |
| 32 | Freehold | Lot 178 – 180<br>Grant 1087–1089<br>Port Dickson | 448,668 | For Pipeline<br>to Jetty | 25 years | 01.01.1991 | 2,172 | | | 2,172 |
| 33 | Freehold | Lot 1300 GM 867<br>Kg Gelam<br>Port Dickson | 88,481 | For Pipeline<br>to Jetty | 26 years | 01.01.1991 | 403 | | | 403 |
| 34 | Freehold | PT 1369, PT 1370<br>PT 10747, PT 1371<br>HSD 35655, 35656<br>35658, 35657<br>Port Dickson | 153,810 | LPG Vessel | 30 years | 01.01.1991 | 492 | | | 492 |
| 35 | Freehold | Lot 3948 GM 2619<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 36 | Freehold | Lot 3949 GM 2620<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 37 | Freehold | Lot 3950 GM 2621<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 38 | Freehold | Lot 3951 GM 2622<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 39 | Freehold | Lot 3974 GM 2632<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 40 | Freehold | Lot 3975 GM 2633<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 41 | Freehold | Lot 3976 GM 2634<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 42 | Freehold | Lot 3977 GM 2635<br>Port Dickson | 1,259 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 86 | | | 86 |
| 43 | Freehold | Lot 4961 GM 475<br>Port Dickson | 5,769 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 210 | | | 210 |
| 44 | Freehold | Lot 4962 GM 476<br>Port Dickson | 4,058 | Refinery<br>Buffer Zone | 20 years | 30.04.2001 | 148 | | | 148 |

# COMPANY PROPERTIES AS AT 31 DECEMBER 2016

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 45 | Freehold | Lot 4963 GM 477 Port Dickson | 6,060 | Refinery Buffer Zone | 20 years | 30.04.2001 | 221 | | | 221 |
| 46 | Freehold | Lot 4964 GM 478 Port Dickson | 463 | Refinery Buffer Zone | 20 years | 30.04.2001 | 181 | | | 181 |
| 47 | Freehold | Lot 4965 GM 479 Port Dickson | 4,736 | Refinery Buffer Zone | 20 years | 30.04.2001 | 173 | | | 173 |
| 48 | Freehold | Lot 4966 GM 480 Port Dickson | 5,726 | Refinery Buffer Zone | 20 years | 30.04.2001 | 209 | | | 209 |
| 49 | Freehold | Lot 4967 GM 481 Port Dickson | 3,326 | Refinery Buffer Zone | 20 years | 30.04.2001 | 121 | | | 121 |
| 50 | Freehold | Lot 4968 GM 482 Port Dickson | 151 | Refinery Buffer Zone | 20 years | 30.04.2001 | 5 | | | 5 |
| 51 | Freehold | Lot 5402 GM 345 Port Dickson | 1,066 | Refinery Buffer Zone | 20 years | 30.04.2001 | 44 | | | 44 |
| 52 | Freehold | Lot 5403 GM 346 Port Dickson | 4,026 | Refinery Buffer Zone | 20 years | 30.04.2001 | 166 | | | 166 |
| 53 | Freehold | Lot 5404 GM 347 Port Dickson | 4,176 | Refinery Buffer Zone | 20 years | 30.04.2001 | 172 | | | 172 |
| 54 | Freehold | Lot 5405 GM 348 Port Dickson | 4,176 | Refinery Buffer Zone | 20 years | 30.04.2001 | 172 | | | 172 |
| 55 | Freehold | Lot 5406 GM 349 Port Dickson | 4,176 | Refinery Buffer Zone | 20 years | 30.04.2001 | 172 | | | 172 |
| 56 | Freehold | Lot 5407 GM 350 Port Dickson | 4,176 | Refinery Buffer Zone | 20 years | 30.04.2001 | 172 | | | 172 |
| 57 | Freehold | Lot 10533 GM 1653 Kg Gelam Port Dickson | 2,002 | Refinery Buffer Zone | 23 years | 31.08.2000 | 20 | | | 20 |
| 58 | Freehold | Lot 9196 – 9214 GM 1770 – 1788 & PT4540 HSM 1655 Kg Gelam Port Dickson | 40,236 | Refinery Buffer Zone | 23 years | 31.08.2000 | 398 | | | 398 |
| 59 | Freehold | Lot 12104 GM 2859 Kg Gelam Port Dickson | 6,135 | Refinery Buffer Zone | 23 years | 31.08.2000 | 61 | | | 61 |
| 60 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 97,738 | Reserved Land | 28 years | 01.01.1991 | 313 | | | 313 |
| 61 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 86,858 | Reserved Land | 29 years | 01.01.1991 | 278 | | | 278 |

| No | Tenure | Address | Land area (square feet) | Description | Age of properties/ buildings | Date of last valuation | Land NBV RM'000 | Land Improvement NBV RM'000 | Building NBV RM'000 | Net book value RM'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 62 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 78,952 | Reserved Land | 29 years | 01.01.1991 | 253 | | | 253 |
| 63 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 148,626 | Reserved Land | 30 years | 01.01.1991 | 475 | | | 475 |
| 64 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 99,360 | Reserved Land | 30 years | 01.01.1991 | 318 | | | 318 |
| 65 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 216,449 | Reserved Land | 30 years | 01.01.1991 | 688 | | | 688 |
| 66 | Freehold | PT 1369, PT 1370 PT 10747, PT 1371 HSD 35655, 35656 35658, 35657 Port Dickson | 104,805 | Reserved Land | 30 years | 01.01.1991 | 336 | | | 336 |
| 67 | Freehold | Lot 580 GM 1274 Port Dickson | 107,539 | Reserved Land | 24 years | 03.09.1991 | 311 | | | 311 |
| 68 | Freehold | Lot 581 GM 1275 Port Dickson | 98,010 | Reserved Land | 24 years | 03.09.1991 | 283 | | | 283 |
| 69 | Freehold | Lot 1312 – 1314 GM 1600 – 1602 Lot 1317 – 1318 GM 1605 – 1606 Lot 764 GRN 65945 Port Dickson | 47,866 | Reserved Land | 52 years | 01.01.1991 | 397 | | | 397 |
| 70 | Freehold | Lot 256, GM 1276 Port Dickson | 62,614 | Reserved Land | 9 years | 28.03.2008 | 600 | | | 600 |
| 71 | Freehold | Lot 9060 GM 2720 Port Dickson | 17,739 | Reserved Land | 53 years | 01.01.1991 | 4 | | | 4 |
| 72 | Leasehold | PT 9451 HM 29075 Port Dickson | 2,822,688 | Jetty Land | 24 years | 10.04.2004 | 1,824 | | 7,410 | 9,234 |
| | | | 15,172,283 | | | | 52,422 | 1,482 | 47,606 | 101,510 |

# ANALYSIS OF SHAREHOLDINGS
AS AT 31 MARCH 2017

| | |
|---|---|
| Authorised Capital | : RM300,000,000.00 |
| Issued and Paid-up Capital | : RM300,000,000.00 |
| Class of Shares | : Ordinary shares |
| Voting Rights | : One vote per ordinary share held |

| | No. of Holders | | No. of Units | | % | |
|---|---|---|---|---|---|---|
| **Size of Holdings** | **Malaysian** | **Foreign** | **Malaysian** | **Foreign** | **Malaysian** | **Foreign** |
| 1 – 99 | 864 | 7 | 6,792 | 103 | 0.00 | 0.00 |
| 100 – 1,000 | 2,909 | 127 | 2,182,210 | 95,300 | 0.73 | 0.03 |
| 1,001 – 10,000 | 3,998 | 394 | 15,927,349 | 1,670,293 | 5.31 | 0.56 |
| 10,001 – 100,000 | 756 | 113 | 21,119,550 | 3,842,238 | 7.04 | 1.28 |
| 100,001 – 14,999,999 (*) | 90 | 38 | 69,660,647 | 12,638,918 | 23.22 | 4.21 |
| 15,000,000 and above (**) | 2 | 0 | 172,856,600 | 0 | 57.62 | 0.00 |
| **Total** | **8,619** | **679** | **281,753,148** | **18,246,852** | **93.92** | **6.08** |

| | No. of Holders | No. of Units | % |
|---|---|---|---|
| **Grand Total** | **9,298** | **300,000,000** | **100.00** |

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

## List of Top 30 Shareholders

| No. | Name | Investor ID | Shareholdings | % |
|---|---|---|---|---|
| 1 | RHB Nominees (Tempatan) Sdn Bhd<br>Industrial and Commercial Bank of China (M) Bhd<br>Pledged Securities Acc for Malaysia Hengyuan International Ltd | 259064V | 153,000,000 | 51.00 |
| 2 | Amanahraya Trustees Berhad<br>Amanah Saham Bumiputera | 766894T | 19,856,600 | 6.62 |
| 3 | Amanah Trustees Berhad<br>Amanah Saham Wawasan 2020 | 766894T | 11,036,500 | 3.68 |
| 4 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Employees Provident Fund Board | 267011M | 7,975,647 | 2.66 |
| 5 | Foo Khen Ling | 501025-10-5403<br>3979761 | 4,368,000 | 1.46 |
| 6 | Kam Loong Mining Sdn Bhd | 9969D | 4,320,000 | 1.44 |
| 7 | CIMB Group Nominees (Tempatan) Sdn Bhd<br>Yayasan Hasanah (Aur-Vcam) | 274740T | 3,364,500 | 1.12 |
| 8 | HSBC Nominees (Asing) Sdn Bhd<br>CACEIS BK FR for HMG Globetrotter | 4381U | 2,338,100 | 0.78 |
| 9 | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Deva Dassan Solomon (8041850) | 42234H | 2,283,700 | 0.76 |

| No. | Name | Investor ID | Shareholdings | % |
|---|---|---|---|---|
| 10 | RHB Nominees Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Ashfak Ahmad Bin Alarakha | 259064V | 2,097,000 | 0.70 |
| 11 | Citigroup Nominees (Tempatan) Sdn Bhd<br>Kumpulan Wang Persaraan (Diperbadankan) (VCAM Equity FD) | 267011M | 1,953,100 | 0.65 |
| 12 | Tan Kah Hock | 510721-04-5197<br>4188071 | 1,900,000 | 0.63 |
| 13 | Yap Ah Fatt | 461229-10-5209<br>2166848 | 1,738,000 | 0.58 |
| 14 | CIMSEC Nominees (Tempatan) Sdn Bhd<br>CIMB Bank for Deva Dassan Solomon (My1091) | 265449P | 1,680,000 | 0.56 |
| 15 | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Helina Shanti Solomon (7001761) | 72234H | 1,655,000 | 0.55 |
| 16 | RHB Nominees (Tempatan) Sdn Bhd<br>Ashfak Ahmad Bin Alarakha | 259064V | 1,488,000 | 0.50 |
| 17 | Allianceegroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Inbamanay A/P M J Arumanayagam (8061712) | 42234H | 1,373,000 | 0.46 |
| 18 | Amanahraya Trustees Berhad<br>As 1Malaysia | 766894T | 1,270,900 | 0.42 |
| 19 | Allianceegroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for John Devaraj Solomon (8103033) | 42234H | 1,161,000 | 0.39 |
| 20 | HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Deva Dassan Solomon | 47697U | 1,026,400 | 0.34 |
| 21 | Wong Siew Fah | 581130-10-6646<br>5679976 | 910,000 | 0.30 |
| 22 | Eletechnics Sdn Bhd | 342067W | 800,000 | 0.27 |
| 23 | Malaysia Nominees (Tempatan) Sendirian Berhad<br>Lee Foundation, States of Malaya (00-00197-000) | 6193K | 790,000 | 0.26 |
| 24 | Alliancegroup Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Selina Sharmalar Solomon (8112136) | 42234H | 776,100 | 0.26 |
| 25 | UOB Kay Hian Nominees Asing) Sdn Bhd<br>Exempt An for UOB Kay Hian Pte Ltd (A/C Clients) | 262422A | 740,650 | 0.25 |
| 26 | Public Nominees (Asing) Sdn Bhd<br>Pledged Securities Account for Chua Kee Tee (E-JBU/SKI) | 264620K | 733,000 | 0.24 |
| 27 | HSBC Nominees (Asing) Sdn Bhd<br>Exempt An for Bank Lombard Odier & Co Ltd | 4381U | 700,000 | 0.23 |
| 28 | Reuben Tan Cherh Chung | 821218-14-5877 | 700,000 | 0.23 |
| 29 | HLB Nominees (Tempatan) Sdn Bhd<br>Pledged Securities Account for Inbamanay A/P M J Arumanayagam | 47697U | 679,200 | 0.23 |
| 30 | Kam Loong Credit Sdn Bhd | 38315T | 620,000 | 0.21 |
| | **Total** | | **233,334,397** | **77.78** |

# ANALYSIS OF SHAREHOLDINGS AS AT 31 MARCH 2017

## Substantial Shareholders Holdings (5% and above)

| No. | Name | Investor ID | Shareholdings | % |
|---|---|---|---|---|
| 1 | RHB Nominees (Tempatan) Sdn Bhd<br>Industrial and Commercial Bank of China (M) Bhd<br>Pledged Securities Acc for Malaysia Hengyuan International Ltd | 259064V | 153,000,000 | 51 |
| 2 | Amanahraya Trustees Berhad<br>Amanah Saham Bumiputera | 766894-T | 19,856,600 | 6.62 |
| | **Total** | | **172,856,600** | **57.62** |

## Directors' Shareholdings

| No. | Name | No. of Shares Held Through Own Name | No. of Shares Held Through Nominees | Total Shareholdings | Percentage (%) |
|---|---|---|---|---|---|
| 1 | Wang, Youde | 0 | 0 | 0.00 | 0.00 |
| 2 | David Lau Nai Pek | 0 | 0 | 0.00 | 0.00 |
| 3 | Datuk Yvonne Chia | 0 | 0 | 0.00 | 0.00 |
| 4 | Datuk Zainun Aishah Binti Ahmad | 0 | 0 | 0.00 | 0.00 |
| 5 | Dato Seri' Talaat Bin Haji Hussain | 0 | 0 | 0.00 | 0.00 |
| 6 | Heng Heyok Chiang @ Heng Hock Cheng | 0 | 0 | 0.00 | 0.00 |
| 7 | Sun, Jianyun | 0 | 0 | 0.00 | 0.00 |
| 8 | Martinus Joseph Marinus Aloysius Stals | 0 | 0 | 0.00 | 0.00 |
| 9 | Wang, Zongquan | 0 | 0 | 0.00 | 0.00 |
| | **Total** | **0** | **0** | **0** | **0.00** |

# PROXY FORM

**Hengyuan Refining Company Berhad**
[Formerly Known as Shell Refining Company (Federation of Malaya) Berhad]
(Company No.: 3926-U) (Incorporated In Malaysia)

| CDS Account No. | 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 [formerly known as Shell Refining Company (Federation of Malaya) Berhad] hereby appoint ____________________________________________
(Full name in block letters)

I.C/Passport/Company 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-Eighth Annual General Meeting of Hengyuan Refining Company Berhad [Formerly known as Shell Refining Company (Federation of Malaya) Berhad] ("the Company") will be held at Ballroom 1 & 2, Connexion@Nexus, Bangsar South City, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur on Wednesday, 24 May 2017 at 2.30 p.m. and at any adjournment thereof.

| No. | Resolutions | For | Against |
|---|---|---|---|
| | **Ordinary Business** | | |
| 1. | To re-elect Mr Wang, YouDe as Director. | | |
| 2. | To re-elect Mr Wang, ZongQuan as Director. | | |
| 3. | To re-elect Mr Sun, JianYun as Director. | | |
| 4. | To re-elect Mr Martinus Joseph Marinus Aloysius Stals as Director. | | |
| 5. | To re-elect Dato' Seri Talaat bin Haji Husain as Director. | | |
| 6. | To re-appoint Messrs PricewaterhouseCoopers 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 RM1,400,000 for the period from 1 January 2017 to 30 June 2018. | | |
| 8. | To retain Dato' Seri Talaat bin Haji Husain, who has served for more than nine years as an Independent Non-Executive Director and to hold office until the next Annual General Meeting. | | |
| 9. | Proposed Renewal of Shareholders' Mandate and New Shareholders' Mandate for Recurrent Related Party Transactions of a Revenue or Trading Nature. | | |

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 ___________ 2017

______________________________________
Signature/Common Seal of Shareholder(s)

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

| | No. of Shares | Percentage |
|---|---|---|
| Proxy 1 | | % |
| Proxy 2 | | % |
| **Total** | | **100%** |

NOTES:-

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

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