DIRECTORS' REPORT

The Directors hereby submit their report to the members together with the audited financial statements of the Company for the financial year ended 31 December 2020.

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	250,983

DIVIDENDS

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

RESERVES AND PROVISIONS

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

DIRECTORS

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

Wang, YouDe

Wang, ZongQuan

Alan Hamzah Sendut

Fauziah binti Hisham

Liang Kok Siang

Surinderdeep Singh Mohindar Singh

Loy Swee Im (appointed on 18 August 2020)

DIRECTORS' BENEFITS

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

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

DIRECTORS' INTERESTS IN SHARES AND DEBENTURE

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

DIRECTORS' REMUNERATION

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

INDEMNITY AND INSURANCE COSTS

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM60,500.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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 13, 15, 16, 17 and 26 to the financial statements; and

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

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

In the opinion of the Directors:

(a) the results of the Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except as disclosed in Note 34 to the financial statements; and

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

DIRECTORS' REPORT

IMMEDIATE AND ULTIMATE HOLDING COMPANIES

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

AUDITORS' REMUNERATION

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

AUDITORS

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

This report was approved by the Board of Directors on 26 March 2021. Signed on behalf of the Board of Directors:

WANG, YOUDE
DIRECTOR

ALAN HAMZAH SENDUT
DIRECTOR

STATEMENT BY DIRECTORS

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

We, Wang, YouDe and Alan Hamzah Sendut, two of the Directors of Hengyuan Refining Company Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 78 to 132 are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2020 and financial performance of the Company for the financial year ended 31 December 2020 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 26 March 2021.

WANG, YOUDE
DIRECTOR

ALAN HAMZAH SENDUT
DIRECTOR

STATUTORY DECLARATION

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

I, Quek Ting Chin, the officer primarily responsible for the financial management of Hengyuan Refining Company Berhad, do solemnly and sincerely declare that the financial statements set out on pages 78 to 132 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.

QUEK TING CHIN
CHIEF FINANCIAL OFFICER

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur, Malaysia, on 26 March 2021.

Before me:

COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) (REGISTRATION NO. 196001000259 (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 2020, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 78 to 132.

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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our audit approach

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

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) (REGISTRATION NO. 196001000259 (3926-U))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
Recoverability of the carrying amount of refinery assets and deferred tax asset *Refer to Note 2 Significant accounting policies: Note 2.3 – Property, plant and equipment, Note 2.5 – Intangible assets, Note 2.6 – Impairment of non-financial assets, Note 2.19 – Leases, Note 2.21 – Current and Deferred Income Tax, Note 3 Critical accounting estimates and judgements: (a) Recoverability of the carrying amount of refinery assets, (b) Deferred tax assets, Note 13 – Property, plant and equipment, Note 14 – Intangible assets, Note 15 – Leases, Note 27 – Deferred Taxation* As at 31 December 2020, the carrying amount of the Company's property, plant and equipment, intangible assets and right-of-use assets (collectively the refinery assets cash-generating-units ("CGU")) is RM2,030.1 million, net of accumulated impairment losses of RM220.6 million and the deferred tax liability is RM114.8 million. We focused on these areas considering the material amount involved and the significant judgements and estimates made by the Directors in determining the fair value less costs to sell ("FVLCTS") of the refinery assets for its impairment assessment and the projections of taxable profits to assess the extent of utilisation of unutilised tax losses. The key assumptions considered in the FVLCTS calculation include: - the projected refining margins which fluctuates based on the oil price, Malaysian and global economic outlook including the possible impact of COVID-19 pandemic; - the production volume based on existing production capacity and forecast demand; and - the discount rate based on the Company's weighted average cost of capital.	We performed the following audit procedures on the FVLCTS calculation which was approved by the Board of Directors: - Discussed with the Board Audit Committee members and the senior management on the FVLCTS calculation to understand the key assumptions which formed the basis of the recoverable amount; - Evaluated management's cash flow projections and the process by which they were developed to ensure key inputs are in line with financial budgets approved by the Board of Directors; - Corroborated supporting evidence underlying the projected refining margins provided by management to market data taking into consideration the possible impact of COVID-19 on global oil prices and through inquiry of management on the basis used; - Agreed the capital expenditure for key projects in the projections to the Board of Directors final investment decision approval, the amount incurred to date and cost to complete based on project plans and enquired with relevant management on the supporting and basis of deriving the cost estimates; - Checked the reasonableness of the discount rate used with the assistance of our valuation experts; and - Checked sensitivity analysis prepared by management on these key assumptions used in the impairment model.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Recoverability of the carrying amount of refinery assets and deferred tax asset (continued) Based on the FVLCTS computed, the Directors have concluded that there is no further impairment in the carrying amount of refinery assets and recognition of deferred tax assets on the remaining unutilised tax losses is appropriate.	We performed the following audit procedures on the projections of taxable profits: - Checked that the projections of taxable profits are determined based on the same assumptions used in the FVLCTS calculation; and - Checked the amount of tax losses estimated to be utilised in YA2021 to YA2025 are included in the computation of deferred tax asset recognised as at 31 December 2020. We did not find any material exceptions in the procedures performed.
Net realisable value ("NRV") of the hydrocarbon inventories *Refer to Note 2 Significant accounting policies: Note 2.11 – Inventories, Note 3 Critical accounting estimates and judgements: (c) Net realisable value of the hydrocarbon inventories, Note 16 – Inventories.* As at 31 December 2020, the Company's hydrocarbon inventories amounted to RM1,015.3 million. Management has performed an assessment to determine the NRV of the hydrocarbon inventories. The NRV was determined based on selling prices less costs to sell after the financial year end. We focused on this area given the significance of the hydrocarbon inventory balances and the volatility of the crude prices which may result in costs being higher than selling prices less costs to sell. Based on the assessment performed, the Directors have provided RM28.1 million for inventories write down.	We performed the following audit procedures: - Agreed the quantity of both the crude and product inventories to supporting documents; - Observed the tank dipping process during the annual physical inventory observation and performed roll-forward testing on a sampling basis to reconcile the tank dipping results to the inventory system; - Corroborated the selling prices of the hydrocarbon inventories to the supporting documents after the financial year end; - Checked selling costs to the supporting documents; - Computed the differences between inventory costs and the NRV to ascertain the NRV adjustments as at 31 December 2020. We did not find any material exceptions in the procedures performed.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HENGYUAN REFINING COMPANY BERHAD
(INCORPORATED IN MALAYSIA) (REGISTRATION NO. 196001000259 (3926-U))

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

Information other than the financial statements and auditors' report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors' Report and Statement on Risk Management and Internal Control, which we obtained prior to the date of this auditors' report, and other sections in the 2020 Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (continued)

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

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 (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 of the Company 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, actions taken to eliminate threats or safeguards applied.

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

OTHER MATTERS

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

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

PAULINE HO
02684/11/2021 J
Chartered Accountant

Kuala Lumpur
26 March 2021

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
Revenue	6	**7,176,147**	12,637,317
Purchases		**(6,796,240)**	(12,103,110)
		379,907	534,207
Other income	7	**16,404**	2,828
Manufacturing expenses		**(229,751)**	(216,660)
Administrative expenses		**(51,350)**	(71,225)
Depreciation and amortisation		**(119,340)**	(144,403)
Other operating gains/(losses)		**308,121**	(61,124)
Finance cost	8	**(22,117)**	(22,516)
Provision for impairment of receivables		**(26,190)**	-
Reversal of impairment of refinery assets		**-**	125,513
Profit before taxation	9	**255,684**	146,620
Taxation	10	**(4,701)**	(111,636)
Profit for the financial year		**250,983**	34,984
Other comprehensive income:			
Items that will be reclassified to profit or loss:			
Cash flow hedge reserve-net fair value loss on derivatives (net of tax)		**(125,794)**	(21,166)
Cost of hedging reserve (net of tax)		**31,849**	(1,686)
Items that will not be reclassified to profit or loss:			
Foreign currency translation differences		**-**	(21,368)
		(93,945)	(44,220)
Total comprehensive income/(loss) for the financial year		**157,038**	(9,236)
Earnings per share (sen) - basic/diluted	11	**84**	12

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 RM'000	2019 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,994,188**	1,919,988
Intangible assets	14	**12,444**	14,070
Right-of-use assets	15	**23,444**	30,843
Derivative financial assets	19	**-**	5,087
		2,030,076	1,969,988
CURRENT ASSETS			
Inventories	16	**1,051,689**	1,491,087
Trade receivables	17	**513,451**	713,863
Other receivables and prepayments	18	**28,311**	18,510
Tax recoverable		**2,994**	2,208
Derivative financial assets	19	**135,180**	321,073
Bank balances	20	**737,198**	1,135,366
		2,468,823	3,682,107
TOTAL ASSETS		**4,498,899**	5,652,095
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	**300,000**	300,000
Retained earnings	22	**1,949,927**	1,698,944
Cash flow hedge reserve	23	**49,552**	175,346
Cost of hedging reserve	23	**(2,210)**	(34,059)
Exchange translation reserve	23	**(128,888)**	(128,888)
		2,168,381	2,011,343
CURRENT LIABILITIES			
Trade and other payables	24	**1,308,516**	1,913,426
Amounts due to immediate holding company and related company	25	**14,317**	23,749
Lease liabilities	15	**7,722**	7,336
Derivative financial liabilities	19	**53,638**	136,086
Borrowings	26	**250,689**	796,054
		1,634,882	2,876,651
NON-CURRENT LIABILITIES			
Derivative financial liabilities	19	**15,886**	13,599
Lease liabilities	15	**15,796**	23,421
Borrowings	26	**549,118**	585,859
Deferred tax liabilities	27	**114,836**	141,222
		695,636	764,101
TOTAL EQUITY AND LIABILITIES		**4,498,899**	5,652,095

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 2020

	Issued and fully paid ordinary shares		Non-distributable			Distributable	
	Number of shares '000	Nominal value RM'000	Cost of hedging reserve RM'000	Exchange translation reserve RM'000	Cash flow hedge reserve RM'000	Retained earnings RM'000	Total equity RM'000
At 1 January 2020	**300,000**	**300,000**	**(34,059)**	**(128,888)**	**175,346**	**1,698,944**	**2,011,343**
Net profit for the financial year	**-**	**-**	**-**	**-**	**-**	**250,983**	**250,983**
Other comprehensive income for the financial year	**-**	**-**	**31,849**	**-**	**(125,794)**	**-**	**(93,945)**
Total comprehensive income for the financial year	**-**	**-**	**31,849**	**-**	**(125,794)**	**250,983**	**157,038**
At 31 December 2020	**300,000**	**300,000**	**(2,210)**	**(128,888)**	**49,552**	**1,949,927**	**2,168,381**
At 1 January 2019							
- as previously stated	300,000	300,000	(32,373)	(107,520)	196,512	1,665,040	2,021,659
- effects of transitioning to MFRS 16	-	-	-	-	-	(1,080)	(1,080)
- as restated	300,000	300,000	(32,373)	(107,520)	196,512	1,663,960	2,020,579
Net profit for the financial year	-	-	-	-	-	34,984	34,984
Other comprehensive income for the financial year	-	-	(1,686)	(21,368)	(21,166)	-	(44,220)
Total comprehensive loss for the financial year	-	-	(1,686)	(21,368)	(21,166)	34,984	(9,236)
At 31 December 2019	300,000	300,000	(34,059)	(128,888)	175,346	1,698,944	2,011,343

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 2020

	Note	2020 RM'000	2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**255,684**	146,620
Adjustments for:			
Interest expense		**21,940**	22,350
Interest income		**(6,217)**	(2,262)
Depreciation of property, plant and equipment		**109,128**	121,849
Depreciation of right-of-use assets		**7,518**	8,149
Amortisation of intangible assets		**2,694**	14,405
Write off of property, plant and equipment		**80**	2,879
Allowance for inventories, net		**-**	369
Inventories written down		**28,110**	-
Provision for impairment of receivables		**26,190**	-
Amortisation of term loan commitment fees		**177**	166
Gain on modification of lease contract		**-**	(533)
Gain on disposal of property, plant and equipment		**-**	(33)
Net fair value (gains)/losses on derivative financial instruments - unrealised		**(22,453)**	48,590
Net foreign exchange losses/(gains) - unrealised		**2,230**	(1,914)
Reversal of impairment		**-**	(125,513)
Operating profit before changes in working capital		**425,081**	235,122
Changes in working capital:			
Inventories		**411,288**	(263,079)
Trade and other receivables		**159,285**	398,641
Trade, other payables and amounts due to immediate holding company and related company		**(566,945)**	887,164*
Cash generated from operations		**428,709**	1,257,848
Interest received		**6,217**	2,262
Tax paid		**(161)**	(1,135)
Net cash flows generated from operating activities		**434,765**	1,258,975
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of property, plant and equipment		**(208,739)**	(510,320)*
Acquisitions of intangible assets		**(1,068)**	(5,588)
Proceeds from disposal of property, plant and equipment		**-**	33
Net cash flows used in investing activities		**(209,807)**	(515,875)

* An amount of RM58,008,000 relating to the movement of accruals for capital expenditure has been reclassified from operating activities to investing activities to better reflect the nature of the expenditures.

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

	Note	2020 RM'000	2019 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		**(1,555,292)**	(4,274,544)
Proceeds from borrowings		**980,606**	4,518,922
Interest paid		**(44,493)**	(49,961)
Repayment of principal portion of lease liabilities		**(8,376)**	(9,025)
Restricted cash for term loan facilities		**45,223**	(22,793)
Net cash flows (used in)/generated from financing activities		**(582,332)**	162,599
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(357,374)**	905,699
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		**1,036,788**	128,033
EFFECTS OF EXCHANGE RATE CHANGES		**4,429**	3,056
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	20	**683,843**	1,036,788

During the financial year ended 31 December 2020, the Company acquired property, plant and equipment with an aggregate cost of RM183,408,000 (2019: RM659,212,000). Cash payments of RM164,029,000 (2019: RM568,328,000) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM112,892,000 (2019: RM159,372,000) is included within accruals for capital expenditure as disclosed in Note 24.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

1 GENERAL INFORMATION

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

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

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

The address of the registered office of the Company is:

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

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

Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ. As at 31 December 2020, the areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION (continued)

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

The amendments and improvements to published standards that are effective for the Company's financial year beginning on 1 January 2020 are as follows:

- The Conceptual Framework for Financial Reporting (Revised 2018)
- Amendments to MFRS 101 and MFRS 108 – Definition of Material
- Amendments to MFRS 9, 139 & 7 – Interest Rate Benchmark Reform
- IC Interpretation 23 – Uncertainty over Income Tax Treatments

The adoption of the above standards, amendments to published standards and interpretations to existing standards did not have any material impact on the financial performance or position of the Company.

(b) Amendments to published standards that are applicable to the Company but not yet effective

The Company will apply the new amendments to published standards in the financial year beginning on 1 January 2022:

- Amendments to MFRS 116 – Proceeds before Intended Use
- Amendments to MFRS 137 – Onerous Contracts: Cost of Fulfilling a Contract
- Annual improvements to MFRS 9 – Fees in the 10% test for Derecognition of Financial Liabilities

The financial impact that may arise from the adoption of the above amendments to published standards is being assessed by the Company.

The Company will apply the new amendments to published standards and interpretations to existing standards in the financial year beginning on 1 January 2023:

- Amendments to MFRS 101 – Classification of Liabilities as Current or Non-current
- Amendments to MFRS 101 – Disclosure of Accounting Policies
- Amendments to MFRS Practice Statement 2 "Making Material Judgements" - Disclosure of Accounting Policies
- Amendments to MFRS 108 – Definition of Accounting Estimates

The financial impact that may arise from the adoption of the above amendments to published standards is being assessed by the Company.

2.2 FOREIGN CURRENCIES

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

(a) Functional and presentation currency

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

The financial statements are presented in Ringgit Malaysia.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 FOREIGN CURRENCIES (continued)

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

(b) Transactions and balances

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

2.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation deemed as cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The cost of an item of property, plant and equipment initially recognised includes its purchase price, import duties, non-refundable purchase taxes and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the intended manner. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.15 on borrowing costs).

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

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

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

Land improvements and buildings	2.5% - 10.0%
Plant, machinery and equipment	2.5% - 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 cycles. 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 to accounting policy Note 2.6 on impairment of non-financial assets. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition of the asset are included in the profit or loss in the year the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 MAINTENANCE COSTS

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

2.5 INTANGIBLE ASSETS

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

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

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

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

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 FINANCIAL ASSETS

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

(a) Classification

The Company classifies its financial assets in the following measurement categories:

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

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

(b) Recognition and measurement

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

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

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

Debt instruments

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

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

(i) Amortised cost

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 FINANCIAL ASSETS (continued)

(b) Recognition and measurement (continued)

Debt instruments (continued)

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

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

(c) Subsequent measurement – impairment

Impairment for debt instruments

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

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

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

The measurement of ECL reflects:

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

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

For other receivables, the Company measures ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instrument or a group of financial instruments has not increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining useful life of the exposure, irrespective of the timing of default (a lifetime ECL).

Significant increase in credit risk

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 FINANCIAL ASSETS (continued)

(c) Subsequent measurement – impairment (continued)

Significant increase in credit risk (continued)

The following indicators are incorporated:

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

Definition of default and credit-impaired financial assets

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

Quantitative criteria:

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

Qualitative criteria:

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

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

Write off

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

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

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

(d) Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 DERIVATIVES AND HEDGING ACTIVITIES

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

The accounting for subsequent changes in fair value depends on whether the derivative is designated as hedging instrument, and if so, the nature of the item being hedged. The Company designates its derivatives as hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Company documents at the inception of the hedge relationship, the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of the hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions.

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

(a) Cash flow hedge reserve

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

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

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

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

(b) Cost of hedging reserve

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 DERIVATIVES AND HEDGING ACTIVITIES (continued)

(c) Hedge effectiveness

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

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

In refining margin swap hedges, ineffectiveness may arise if there is a change in delivery date of crude oil, change in volume of hedged items or if there is a change in credit risk of the Company or the derivative counterparty. As all critical terms matched in the current and previous financial year, the economic relationship was 100% effective. There was no ineffectiveness during the year in relation to refining margin swap hedges.

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

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

(d) Derivatives that do not qualify for hedge accounting

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

(e) Embedded derivatives

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 TRADE AND OTHER RECEIVABLES

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

The Company holds trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method, less allowance for impairment. Details about the Company's impairment policies and the calculation of ECL are provided in the accounting policy Note 2.7.

2.10 CASH AND CASH EQUIVALENTS

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

Bank overdrafts which are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents in the statement of cash flows. In the statement of financial position, banks overdrafts are shown within borrowings in current liabilities.

2.11 INVENTORIES

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 FINANCIAL LIABILITIES

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

(a) Classification

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

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

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

(ii) Other financial liabilities

The Company's other financial liabilities include trade payables, other payables, intercompany payables, lease liabilities and borrowings. Lease liabilities and 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.

(b) Recognition and initial measurement

Derivative liabilities are initially measured at fair value. Trade and other payables are recognised initially at fair value plus directly attributable transaction costs. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Lease liabilities are recognised initially at the present value of the lease payments not paid at that date.

(c) Subsequent measurement – gains and losses

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

(d) Derecognition

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 after the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value net of transaction costs incurred, which include transfer taxes and duties and subsequently measured at amortised cost using the effective interest method. See accounting policy 2.12 on financial liabilities.

2.14 PROVISIONS

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

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

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

2.15 BORROWINGS AND BORROWING COSTS

(a) Borrowings

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

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

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

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

(b) Borrowing costs

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 OFFSETTING FINANCIAL INSTRUMENTS

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

2.17 REVENUE

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

<u>Revenue from contracts with customers</u>

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

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

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

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

(b) Procurement of oil products

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

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

<u>Revenue from other sources – interest income</u>

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

2.18 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 LEASES

Company as lessee

Leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease term

In determining lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably to be extended (or not to be terminated).

The Company reassess the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy on reassessment of lease liabilities.

Right-of-use ("ROU") assets

(a) Initial measurement of ROU assets

ROU assets are initially measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before commencement date less any lease incentive received;
- Any initial direct costs; and
- Decommissioning or restoration costs.

(b) Subsequent measurement of ROU assets

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurements of the lease liabilities. ROU assets are presented as a separate line in the statement of financial position.

Lease liabilities

(a) Initial measurement of lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. Lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar terms, security and conditions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 LEASES (continued)

Company as lessee (continued)

Lease liabilities (continued)

(a) Initial measurement of lease liabilities (continued)

The lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are allocated between principal and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented within the finance cost in profit or loss in the statement of comprehensive income.

(b) Subsequent measurement of lease liabilities

After the commencement date, a lessee shall measure the lease liability by:

i) increase the carrying amount to reflect interest on the lease liability;

ii) reduce the carrying amount to reflect the lease payments made; and

iii) remeasure the carrying amount to reflect any reassessment or lease modifications specified or to reflect in-substance fixed lease payments.

(c) Reassessment of lease liabilities

After the commencement date, a lessee shall remeasure the lease liability to reflect changes to the lease payments by using a revised discount rate if either:

i) a change in lease term due to the lessee exercises an option (purchase/termination/extension) in a different way than the Company has previously determined was reasonably certain; or

ii) a change in lease term due to an event occurs that contractually obliged/prohibits the lessee from exercise the option.

In contrast, a lessee shall use an unchanged discount rate to remeasure lease liability to reflect changes to lease payments if either:

i) a change in the amounts expected to be payable under a residual value guarantee; or

ii) a change in future lease payments resulting from a change in an index or rate used to determine those payments.

A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the ROU. However, if the carrying amount of the ROU is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 LEASES (continued)

Company as lessee (continued)

Short term leases and leases of low value assets

Short term leases are leases with a lease term of 12 months or less. Low value assets comprise of small items such as IT equipment. Payments associated with short term leases and leases of low value assets are recognised on a straight line basis as an expense in profit or loss.

2.20 EMPLOYEE BENEFITS

(a) Short-term employee benefits

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

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

(b) Post-employment benefits

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

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

(c) Employee leave entitlement

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

(d) Long-term employee benefits

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

2.21 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 CURRENT AND DEFERRED INCOME TAX (continued)

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

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

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

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

2.22 SHARE CAPITAL

(a) Classification

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

(b) Dividend distribution

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

2.23 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing:

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

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 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.

2.25 SEGMENT REPORTING

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Recoverability of the carrying amount of refinery assets

The Company reviews the carrying amount of its property, plant and equipment, intangible assets and ROU assets (collectively the refinery assets cash-generating-units ("CGU")) in accordance to its accounting policy stated in Note 2.6. 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.

Key assumptions considered in the FVLCTS calculations include projected refining margins adjusted for planned turnaround activities as well as margin uplift initiatives from crude optimisation. The FVLCTS calculations also took into account the planned capital expenditure and incremental operating costs anticipated to ensure compliance with product specification regulations. The assessment was based on management's assessment adjusted for market conditions to reflect market participants' perspective (level three (3) in fair value hierarchy) and extrapolating the cash flows over a 20-year period, which reflects the remaining useful life of the refinery assets.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Recoverability of the carrying amount of refinery assets (continued)

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

(i) Refining margins per barrel: Between USD3.30 to USD6.17 (2019: USD3.78 to USD5.70)

(ii) Post-tax discount rate: 10.5% (2019: 10.5%)

(iii) Production volume: Based on existing production capacity and forecast demand

Sensitivity analysis:

The key estimation uncertainty over the assumptions used by management in the FVLCTS is the refining margins and discount rate. The sensitivity of these assumptions to the recoverable amount and impairment loss is as follows:

- 11.82% decrease over the 20-year period in refinery margin will result in the recoverable amount being equal to the carrying amount of the refinery assets.
- 4.20% increase over the 20-year period in the discount rate will result in the recoverable amount being equal to the carrying amount of the refinery assets.

The cash flow forecast is dependent on the achievability of the refinery margins and assumptions and the corresponding sensitivities as indicated above.

Refinery margins are subject to cyclical fluctuations resulting from an over-supply and supply tightness in various global and regional markets. Fluctuations in the short term may result in significant changes in monthly or quarterly profit and loss resulting in significant loss or profits.

Despite the delay in the progress of the Euro 4 Mogas ("E4M") project, the Company is capable of producing E4M specification products to meet all its contractual obligations. Should there be additional demand, the Company may either increase its production or import the E4M specification products, whichever is more commercially attractive. Therefore, the Directors do not expect the consequential margin impact from the project delay on the recoverable amount of the refinery assets to be material.

(b) Deferred tax assets

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

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

Pursuant to the Malaysia Finance Act 2018, unused tax losses in a year of assessment can only be carried forward for a maximum period of 7 consecutive years of assessment ("YA"). The change in the tax treatment is effective from YA2019 and therefore all the brought forward unused tax losses will be disregarded from YA2026.

In the current financial year, the Company has recognised deferred tax assets of RM62,332,000 arising from unused tax losses as it is probable that future taxable profits will be available to offset against the unused tax losses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Net realisable value of the hydrocarbon inventories

The COVID-19 pandemic and an over-supply and supply tightness in various global and regional markets may affect the estimated net realisable value of hydrocarbon inventories. The estimated selling prices may fluctuate due to changes in the customers' demand for petroleum as a result of restricted travel imposed in Malaysia as well as globally. The Company needs to estimate the net realisable value based on the most reliable evidence at the time the estimate is made. The Company also considers the effect of events occurring after the end of the financial year in determining the net realisable value of the hydrocarbon inventories. These estimates require judgements given the uncertainties in the future selling prices and selling costs of the inventories.

Based on the assessment performed, the Company has provided RM28,110,000 for inventories write down.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

The Company's accounting policy on its cash flow hedges is set out on Note 2.8(a).

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

(a) Market risk

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

(i) Foreign currency exchange risk

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

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

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

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(i) Foreign currency exchange risk (continued)

The following analysis illustrates the Company's sensitivity to changes in USD to RM exchange rate (2019: RM to USD exchange rate):

	Increase/(decrease) in profit after tax 2020 RM'000	2019 RM'000
USD strengthens by 10%	**(63,824)**	(124,745)
USD weakens by 10%	**63,824**	124,745

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

(ii) Interest rate risk

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

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

The Company has an approved policy to hedge interest rate risk as part of the Company's risk management policy.

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

Interest rate swaps currently in place cover approximately 56% (2019: 65%) of the variable loan principal outstanding. The fixed interest rates of the swaps range between 2.96% to 3.03% and the variable rates of the loans are between 0.25% to 2.74% (2019: 1.89% to 2.74%).

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

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

The interest rate profile of the Company's significant interest-bearing financial instrument has been presented in Note 26.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

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

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

	Increase/(decrease) in profit after tax 2020 RM'000	2019 RM'000
100 basis points increase in interest rate	**(3,519)**	(3,419)
100 basis points decrease in interest rate	**3,519**	3,419

(iii) Commodity price risk and refining margin risk

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

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

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

	Increase/(decrease) in profit after tax 2020 RM'000	2019 RM'000
10% increase in commodity price	**(2,003)**	(69,003)
10% decrease in commodity price	**2,003**	69,003

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

	Increase/(decrease) in equity 2020 RM'000	2019 RM'000
10% increase in refining margin	**(3,070)**	(88,750)
10% decrease in refining margin	**3,070**	88,750

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Credit risk

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

(i) Receivables

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

55% (2019: 54%) of the Company's total receivables at the reporting date are due from two (2019: two) major customers in the oil and gas industry in Malaysia. The Directors are of the view that such credit risk is minimal in view of the strength of the customers' financial position and no history of default from these major customers.

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

An impairment analysis is performed at each reporting date to measure expected credit losses. The provision rates are based on days past due and coverage by letters of credit and historical credit losses of the customers. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events and current conditions. The Company has considered expected oil price and geographical area which the debtor operates in and concluded that the effect on expected changes in these factors do not significantly affect the historical credit loss rates. Generally, trade receivables are written off if past due for more than one year unless it is covered by letters of credits. These letters of credit are considered integral part of trade receivables and considered in the calculation of impairment.

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

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

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

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

None of the financial assets have been renegotiated in the current financial year except as disclosed in Note 17.

(c) Liquidity and cash flow risks

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity and cash flow risks (continued)

The Company obtained an additional accounts receivable factoring facility from bank during the financial year. This facility may be drawn at any time and may be terminated by the bank with written notice.

As at 31 December 2020, there are outstanding borrowings amounting to RM799,807,000 (2019: RM1,381,913,000) as disclosed in Note 26.

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

At 31 December 2020	Within 1 year RM'000	Between 1 to 2 years RM'000	Between 2 to 5 years RM'000	Total contractual undiscounted cash flows RM'000	Total carrying amount RM'000
Non-derivative financial liabilities					
Trade and other payables excluding statutory liabilities	1,291,309	-	-	1,291,309	1,291,309
Lease liabilities	8,402	8,367	7,786	24,555	23,518
Amounts due to immediate holding company and related company	14,317	-	-	14,317	14,317
Borrowings	261,725	248,635	308,484	818,844	799,807
	1,575,753	257,002	316,270	2,149,025	2,128,951
Derivative financial liabilities					
Refining margin swap contracts	4,192	-	-	4,192	4,192
Forward priced commodity contracts	2,526	-	-	2,526	2,526
Commodity swap contracts	46,920	-	-	46,920	46,920
Interest rate swap contracts	-	-	15,886	15,886	15,886
	53,638	-	15,886	69,524	69,524
	1,629,391	257,002	332,156	2,218,549	2,198,475

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Liquidity and cash flow risks (continued)

At 31 December 2019	Within 1 year RM'000	Between 1 to 2 years RM'000	Between 2 to 5 years RM'000	Total contractual undiscounted cash flows RM'000	Total carrying amount RM'000
Non-derivative financial liabilities					
Trade and other payables excluding statutory liabilities	1,900,454	-	-	1,900,454	1,900,454
Lease liabilities	8,391	8,423	16,171	32,985	30,757
Amounts due to immediate holding company and related company	23,749	-	-	23,749	23,749
Borrowings	824,082	111,665	505,233	1,440,980	1,381,913
	2,756,676	120,088	521,404	3,398,168	3,336,873
Derivative financial liabilities					
Refining margin swap contracts	20,074	840	-	20,914	20,914
Refining margin and commodity options	287	-	-	287	287
Commodity swap contracts	111,498	-	-	111,498	111,498
Interest rate swap contracts	-	-	12,759	12,759	12,759
Forward foreign currency contracts (gross settled)					
– inflow	(326,668)	-	-	(326,668)	(326,668)
– outflow	330,895	-	-	330,895	330,895
	136,086	840	12,759	149,685	149,685
	2,892,762	120,928	534,163	3,547,853	3,486,558

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Capital risk management

The Company's objectives when managing capital are:

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

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

	2020 RM'000	2019 RM'000
Total borrowings	**799,807**	1,381,913
Total equity	**2,168,381**	2,011,343
Total borrowings	**799,807**	1,381,913
Total capital	**2,968,188**	3,393,256
Gearing ratio	**27%**	41%

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

5 FAIR VALUE MEASUREMENTS

Financial instruments carried at amortised cost

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

Financial instruments carried at fair value

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

Fair value hierarchy

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

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

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

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

Derivative financial instruments outstanding as at reporting date are detailed below:

	As at 31 December 2020	
Derivatives	**Notional Value USD'000**	**Fair Value RM'000**
Refining margin swap contracts, net	**59,436**	**74,746**
Forward foreign currency contracts	**18,000**	**57**
Commodity swap contracts, net	**96,496**	**9,265**
Forward priced commodity contracts	**47,414**	**(2,526)**
Interest rate swap contracts	**88,750**	**(15,886)**

	As at 31 December 2019	
Derivatives	**Notional Value USD'000**	**Fair Value RM'000**
Refining margin swap contracts, net	357,748	196,739
Forward foreign currency contracts	79,753	(4,227)
Refining margin and commodity options, net	365	5,026
Commodity swap contracts, net	693,377	(8,304)
Interest rate swap contracts	115,000	(12,759)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

5 FAIR VALUE MEASUREMENTS (continued)

Fair value hierarchy (continued)

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

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
Financial assets/(liabilities)				
Derivative financial assets:				
- Refining margin swap contracts	**-**	**78,938**	**-**	**78,938**
- Commodity swap contracts	**-**	**56,185**	**-**	**56,185**
- Forward foreign currency contracts	**-**	**57**	**-**	**57**
Derivative financial liabilities:				
- Refining margin swap contracts	**-**	**(4,192)**	**-**	**(4,192)**
- Commodity swap contracts	**-**	**(46,920)**	**-**	**(46,920)**
- Forward priced commodity contracts	**-**	**(2,526)**	**-**	**(2,526)**
- Interest rate swap contracts	**-**	**(15,886)**	**-**	**(15,886)**
At 31 December 2020	**-**	**65,656**	**-**	**65,656**
Financial assets/(liabilities)				
Derivative financial assets:				
- Refining margin swap contracts	-	217,653	-	217,653
- Refining margin and commodity options	-	5,313	-	5,313
- Commodity swap contracts	-	103,194	-	103,194
Derivative financial liabilities:				
- Refining margin swap contracts	-	(20,914)	-	(20,914)
- Commodity swap contracts	-	(111,498)	-	(111,498)
- Forward foreign currency contracts	-	(4,227)	-	(4,227)
- Refining margin and commodity options	-	(287)	-	(287)
- Interest rate swap contracts	-	(12,759)	-	(12,759)
At 31 December 2019	-	176,475	-	176,475

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

6 REVENUE

	2020 RM'000	2019 RM'000
Sale of oil products:		
- refined	**7,175,066**	12,634,960
- crude oil	**1,081**	2,357
	7,176,147	12,637,317

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

7 OTHER INCOME

	2020 RM'000	2019 RM'000
Interest income	**6,217**	2,262
Liquidated damages	**10,187**	-
Gain on modification of lease contract	**-**	533
Gain on disposal of property, plant and equipment	**-**	33
	16,404	2,828

8 FINANCE COST

	2020 RM'000	2019 RM'000
Interest expense:		
- borrowings	**12,075**	16,543
- amortisation of term loan commitment fees	**177**	166
- interest rate swaps	**8,426**	2,688
- lease liabilities	**1,018**	1,545
- factoring arrangement	**351**	646
- interest charged by hedging counterparties on collateral held	**70**	928
	22,117	22,516

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

9 PROFIT BEFORE TAXATION

	2020 RM'000	2019 RM'000
The profit before taxation is arrived at after charging/(crediting):		
Auditors' remuneration:		
- statutory audit fees	**351**	374
- audit-related fees	**69**	148
- fees for non-audit services	**155**	34
Cost of inventories	**7,448,100**	12,303,981
Staff cost:		
- salaries, bonus and allowances	**92,681**	95,100
- defined contribution plan	**11,713**	10,637
- other employee benefits	**4,604**	5,919
Foreign exchange (gains)/losses:		
- realised	**(9,970)**	14,448
- unrealised	**2,230**	(1,914)
Net fair value (gains)/losses on derivative financial instruments:		
- included in purchases (Note 23)	**(823,935)**	(98,222)
- included in other operating gains or losses	**(300,381)**	147,854
Depreciation of property, plant and equipment	**109,128**	121,849
Depreciation of right-of-use assets	**7,518**	8,131
Amortisation of prepaid lease payments	**-**	18
Amortisation of intangible assets	**2,694**	14,405
Allowance for inventories	**-**	369
Provision for impairment of receivables	**26,190**	-
Inventories written down	**28,110**	-
Write off of property, plant and equipment	**80**	2,879

10 TAXATION

	2020 RM'000	2019 RM'000
Current tax – Malaysian tax		
- current financial year	**-**	663
	-	663
Deferred taxation (Note 27)		
- origination and reversal of temporary differences	**8,549**	121,237
- over accrual in prior year	**(3,848)**	(10,264)
	4,701	110,973
Taxation recognised in profit or loss	**4,701**	111,636
Deferred taxation (Note 27)		
- origination and reversal of temporary differences	**(31,087)**	(7,216)
Taxation recognised in other comprehensive income	**(31,087)**	(7,216)

10 TAXATION (continued)

Income tax is calculated at the Malaysian statutory tax rate of 24% (2019: 24%) of the estimated assessable profit for the year. The numerical reconciliation between the effective tax rate and the applicable statutory tax rate is as follows:

	2020 %	2019 %
Applicable statutory tax rate	**24**	24
Tax effects in respect of:		
- expenses not deductible for tax purposes	**1**	5
- income not subject to tax	**-**	(2)
- effects arising due to difference between functional and tax reporting currency	**-**	25
- utilisation of reinvestment allowance previously not recognised	**(4)**	-
- over accrual in prior year	**(1)**	(7)
- (recognition of previously unrecognised tax losses)/deferred tax asset not recognised on unutilised tax losses	**(18)**	31
Effective tax rate	**2**	76

11 EARNINGS PER SHARE

Basic earnings per 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.

There are no potentially diluted items identified in the current and previous financial year, hence diluted earnings per share equals to basic earnings per share.

	2020	2019
Profit for the financial year (RM'000)	**250,983**	34,984
Weighted average number of ordinary shares in issue ('000)	**300,000**	300,000
Basic/Diluted earnings per share (sen)	**84**	12

12 DIRECTORS' REMUNERATION

	2020 RM'000	2019 RM'000
Fees	**1,983**	1,933
Allowances	**25**	24
	2,008	1,957

Indemnity insurance for Directors and Officers of the Company during the financial year amounted to RM60,500 (2019: RM57,000).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

13 PROPERTY, PLANT AND EQUIPMENT

2020	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	46,219	14,299	99,791	3,623,465	886,554	4,670,328
Additions	-	-	-	-	183,408	183,408
Disposal	-	-	-	(40)	-	(40)
Write off	-	-	-	-	(80)	(80)
Reclassification	-	-	-	23,097	(23,097)	-
At 31 December	46,219	14,299	99,791	3,646,522	1,046,785	4,853,616
Accumulated depreciation						
At 1 January	-	13,361	63,078	2,453,340	-	2,529,779
Charge for the financial year	-	105	2,258	106,765	-	109,128
Disposal	-	-	-	(40)	-	(40)
At 31 December	-	13,466	65,336	2,560,065	-	2,638,867
Accumulated impairment losses						
At 1 January	-	-	-	220,561	-	220,561
At 31 December	-	-	-	220,561	-	220,561
Carrying amount						
At 31 December	46,219	833	34,455	865,896	1,046,785	1,994,188

13 PROPERTY, PLANT AND EQUIPMENT (continued)

2019	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	46,710	14,451	100,851	3,454,690	447,439	4,064,141
Additions	-	-	-	-	659,212	659,212
Disposal	-	-	-	(153)	-	(153)
Write off	-	-	-	-	(2,879)	(2,879)
Reclassification	-	-	-	207,535	(207,535)	-
Effect of exchange rate changes	(491)	(152)	(1,060)	(38,607)	(9,683)	(49,993)
At 31 December	46,219	14,299	99,791	3,623,465	886,554	4,670,328
Accumulated depreciation						
At 1 January	-	13,391	61,447	2,360,190	-	2,435,028
Charge for the financial year	-	112	2,303	119,434	-	121,849
Disposal	-	-	-	(153)	-	(153)
Effect of exchange rate changes	-	(142)	(672)	(26,131)	-	(26,945)
At 31 December	-	13,361	63,078	2,453,340	-	2,529,779
Accumulated impairment losses						
At 1 January	-	-	-	348,343	-	348,343
Reversal of impairment	-	-	-	(125,513)	-	(125,513)
Effect of exchange rate changes	-	-	-	(2,269)	-	(2,269)
At 31 December	-	-	-	220,561	-	220,561
Carrying amount						
At 31 December	46,219	938	36,713	949,564	886,554	1,919,988

Assets pledged as security

Property, plant and equipment as at reporting date are pledged as security for borrowings as disclosed in Note 26.

Capitalised borrowing costs

The amount of borrowing costs capitalised during the year ended 31 December 2020 is RM19,379,000 (2019: RM31,164,000). The rate used to determine the amount of borrowing costs eligible for capitalisation is 2.31% (2019: 4.56%) which is the weighted average of the borrowing costs applicable to the borrowings of the Company.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

13 PROPERTY, PLANT AND EQUIPMENT (continued)

Reversal of impairment in the previous financial year

In financial year ended 31 December 2014, the company recognised an impairment of its plant, machinery and equipment. The impairment recognised was triggered by the declining trend in refining margins and the announcement by the relevant regulatory bodies of its intention to implement E4M and Euro 5 compliant fuel by 2019 and 2020 respectively. Assessment of the asset's recoverable amount was made, and this resulted in the partial reversal of impairment in the previous financial years. Management and the Directors had assessed impairment for reversal after taking into consideration the successful completion of Clean Air Regulation ("CAR") unit and higher certainty on the progress of the other key regulatory driven projects, namely Euro 5 Diesel and Hydrogen Generation ("H2GEN") units. The recoverable amount of the refinery assets, being defined as a cash-generating-unit, was determined using the FVLCTS method based on management's assessment adjusted for market conditions to reflect market participants' perspective. The FVLCTS is the net present value of the projected future cashflow derived from the asset discounted at an appropriate discount rate. Refer Note 3(a) for the key assumptions used.

14 INTANGIBLE ASSETS

	2020 RM'000	2019 RM'000
Cost		
At 1 January	**63,767**	58,864
Additions	**1,068**	5,588
Effect of exchange rate changes	**-**	(685)
At 31 December	**64,835**	63,767
Accumulated amortisation		
At 1 January	**49,697**	35,832
Amortisation for the financial year	**2,694**	14,405
Effect of exchange rate changes	**-**	(540)
At 31 December	**52,391**	49,697
Carrying amount		
At 31 December	**12,444**	14,070

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

The useful life of IT development and software is between 3 and 10 years (2019: 3 and 10 years).

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

15 LEASES

(i) The balance sheet shows the following amounts relating to leases:

Right-of-use assets

2020	Land lease RM'000	Equipment RM'000	Tugboats RM'000	Vehicles RM'000	Total RM'000
Cost					
At 1 January	1,626	500	34,746	1,761	38,633
Additions	-	-	-	119	119
At 31 December	1,626	500	34,746	1,880	38,752
Accumulated depreciation/amortisation					
At 1 January	16	82	7,192	500	7,790
Charge for the financial year	19	167	6,950	382	7,518
At 31 December	35	249	14,142	882	15,308
Carrying amount					
At 31 December	1,591	251	20,604	998	23,444

Land lease as at reporting date are pledged as security for borrowings as disclosed in Note 26.

The depreciation of right-of-use assets is included in the "depreciation and amortisation" line item in the profit or loss.

2019	Land lease RM'000	Equipment RM'000	Tugboats RM'000	Vehicles RM'000	Total RM'000
Cost					
At 1 January	-	-	34,497	1,780	36,277
Reclassification	1,643	-	-	-	1,643
Additions	-	505	11,084	-	11,589
Lease modification	-	-	(10,463)	-	(10,463)
Effect of exchange rate changes	(17)	(5)	(372)	(19)	(413)
At 31 December	1,626	500	34,746	1,761	38,633
Accumulated depreciation/amortisation					
At 1 January	-	-	1,151	149	1,300
Charge for the financial year	18	83	7,692	356	8,149
Lease modification	-	-	(1,570)	-	(1,570)
Effect of exchange rate changes	(2)	(1)	(81)	(5)	(89)
At 31 December	16	82	7,192	500	7,790
Carrying amount					
At 31 December	1,610	418	27,554	1,261	30,843

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

15 LEASES (continued)

(i) The balance sheet shows the following amounts relating to leases: (continued)

Lease liabilities

	2020 RM'000	2019 RM'000
Current	**7,722**	7,336
Non-current	**15,796**	23,421
At 31 December	**23,518**	30,757

(ii) Nature of the lessee's leasing activities and restrictions or covenants imposed by leases

The Company leases various equipment, vehicles and tugboats. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowings, except for land lease.

(iii) Variable payments terms

The Company does not have any variable payment terms on its lease agreements.

(iv) Extension options and termination options

Extension and termination options are included in lease contracts across the Company. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Extension and termination options are included, when possible, to provide greater flexibility. The individual terms and conditions used vary across the lease contracts.

In cases in which the Company is not reasonably certain to exercise an optional extended lease term, payments associated with the optional period are not included within lease liabilities. In the current and previous financial year, the Company did not exercise any extension option, therefore no financial effect recognised in lease liabilities.

In the previous financial year, the Company modified one of its lease contracts. Gain on modification of lease contract is included in "other income" line item in the profit or loss.

Some of the lease agreements contain termination options. These options are used to limit the period to which the Company is committed to individual lease contracts and to maximise operational flexibility. For these lease agreements, recognised lease liabilities do not include potential future rental payments after the exercise date of termination options because the Company is not reasonably certain to extend the lease beyond that date. This is the case for most leases for which a longer lease term can be enforced only by the Company and not by the lessor, and for which there is no penalty associated with the option.

15 LEASES (continued)

(v) Movement in lease payables and changes in lease liabilities arising from leasing activities is as below:

	2020 RM'000	2019 RM'000
At 1 January/effects of transitioning to MFRS 16	**30,757**	36,398
Repayment of principal portion of lease liabilities	**(8,376)**	(9,025)
Non-cash changes:		
Additions	**119**	11,589
Modification of lease liabilities	**-**	(9,426)
Interest expense (Note 8)	**1,018**	1,545
Effect of exchange rate changes	**-**	(324)
At 31 December	**23,518**	30,757

16 INVENTORIES

	2020 RM'000	2019 RM'000
Crude oil	**624,327**	962,175
Petroleum products	**419,111**	498,700
Inventories written down	**(28,110)**	-
	391,001	498,700
Materials	**36,361**	30,581
Allowance for inventories	**-**	(369)
	36,361	30,212
	1,051,689	1,491,087

Included within crude oil and petroleum products is stock in transit as at 31 December 2020 of RM339,254,000 (2019: RM361,849,000).

Inventories as at reporting date are pledged in favour of a vendor to secure credit lines for crude oil and product purchases.

17 TRADE RECEIVABLES

	2020 RM'000	2019 RM'000
Trade receivables	**537,963**	714,289
Less: Provision for impairment	**(24,512)**	(426)
Trade receivables	**513,451**	713,863

The credit terms range between 15 to 30 days (2019: 15 to 30 days).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

17 TRADE RECEIVABLES (continued)

(i) Transferred receivables

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement. Under this arrangement, the Company has the right to transfer the relevant receivables to the financial institutions in exchange for cash upon submission of Purchase Request to the financial institutions when there is the need. Trade receivables are derecognised when the trade receivables are transferred to the financial institution through the factoring arrangement. In the event of default by the trade receivables, the financial institution has no recourse to the Company. The Company considers that the held to collect business model remains appropriate for these receivables and hence continues to measure them at amortised cost.

(ii) The Company maintains an aging analysis for trade receivables. The following table provides information about the exposure to ECL on trade receivables as at reporting date.

2020	Gross RM'000	Impairment RM'000	Net RM'000
Current	**511,348**	**-**	**511,348**
1 to 30 days past due	**689**	**-**	**689**
30 to 180 days past due	**277**	**-**	**277**
More than 180 days past due	**25,649**	**(24,512)**	**1,137**
	537,963	**(24,512)**	**513,451**
2019			
Current	700,048	-	700,048
1 to 30 days past due	13,619	-	13,619
0 to 180 days past due	-	-	-
More than 180 days past due	622	(426)	196
	714,289	(426)	713,863

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

	2020 RM'000	2019 RM'000
As at 1 January	**426**	1,254
Amount written off	**(426)**	(824)
Provision for impairment	**26,190**	-
Effect of exchange rate changes	**(1,678)**	(4)
As at 31 December	**24,512**	426

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Receivables amounting to RM25,118,000 were secured by bank guarantees.

Up to USD50,000,000 or RM200,550,000 of trade receivables as at reporting date are pledged in favour of a vendor to secure credit lines for crude oil purchases.

18 OTHER RECEIVABLES AND PREPAYMENTS

	2020 RM'000	2019 RM'000
Other receivables and deposits	**19,593**	8,602
Prepayments	**7,885**	8,929
Sales tax receivables	**833**	979
	28,311	18,510

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

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

The Company has the following derivative financial instruments:

	2020 RM'000	2019 RM'000
Current assets		
Refining margin swap contracts – cash flow hedges	**75,504**	211,362
Refining margin swap contracts – held for trading	**3,434**	1,204
Commodity swap contracts – held for trading	**56,185**	103,194
Refining margin and commodity options – held for trading	**-**	5,313
Forward foreign currency contracts – held for trading	**57**	-
	135,180	321,073
Non-current assets		
Refining margin swap contracts – cash flow hedges	**-**	5,087
	-	5,087
Current liabilities		
Refining margin swap contracts – cash flow hedges	**405**	13,918
Refining margin swap contracts – held for trading	**3,787**	6,156
Commodity swap contracts – held for trading	**46,920**	111,498
Refining margin and commodity options – held for trading	**-**	287
Forward foreign currency contracts – held for trading	**-**	4,227
Forward priced commodity contracts – held for trading	**2,526**	-
	53,638	136,086
Non-current liabilities		
Interest rate swap contracts – cash flow hedges	**15,886**	12,759
Refining margin swap contracts – cash flow hedges	**-**	840
	15,886	13,599

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

Derivatives designated as hedging instrument

(a) Refining margin swap contracts

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

The contracts are intended to hedge the volatility of the refining margin (differences between purchase price of crude oil and sales price of petroleum products) for a period between 1 to 12 months (2019: 1 to 24 months). There was no forecast transactions for which hedge accounting had previously been used, but which is no longer expected to occur.

The cash flow hedges of the highly probable forecast crude purchases or firm purchase commitments and sales of petroleum products were assessed to be highly effective. The net unrealised gain of RM75,099,000 (2019: RM201,691,000), with a related deferred tax liability of RM18,024,000 (2019: RM48,406,000) was included in other comprehensive income in respect of these contracts for the financial year. There is no ineffectiveness portion of hedge accounting during the current and previous financial year.

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

	2020	**2019**
Carrying amount asset, net (RM'000)	**75,099**	201,691
Notional value (USD'000)	**43,844**	331,174
Maturity date	**January 2021 to December 2021**	January 2020 to June 2021
Hedge ratio (%)	**100**	100
Change in fair value of designated hedging instruments (RM'000)	**78,334**	249,916
Change in value of hedged item used to determine hedge effectiveness (RM'000)	**(78,334)**	(249,916)
Gross margin per barrel (USD)	**2.05 to 23.05**	5.50 to 23.05

(b) Interest rate swap contracts

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

The management considers the interest rate swaps as an effective hedging instrument as the term loans and the swaps have identical critical terms. The net unrealised loss of RM15,886,000 (2019: RM12,759,000), with a related deferred tax asset of RM3,813,000 (2019: RM3,062,000) was included in other comprehensive income in respect of these contracts for the financial year. There was no ineffectiveness recognised in the current and previous financial year.

19 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) (continued)

Derivatives designated as hedging instrument (continued)

(b) Interest rate swap contracts (continued)

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

	2020	**2019**
Carrying amount (liability) (RM'000)	**(15,886)**	(12,759)
Notional amount (USD'000)	**88,750**	115,000
Maturity date	**February 2023**	February 2023
Hedge ratio (%)	**100**	100
Change in fair value of outstanding hedging instruments (RM'000)	**(15,955)**	(12,902)
Change in value of hedged item used to determine hedge effectiveness (RM'000)	**15,955**	12,902
Weighted average hedged rate for the year (%)	**2.98**	2.97

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

Derivatives not designated as hedging instrument

(a) Forward foreign exchange contracts

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

(b) Forward priced commodity contracts

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

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

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

20 CASH AND CASH EQUIVALENTS

	2020 RM'000	**2019 RM'000**
Bank balances	**737,198**	1,135,366
Less: Restricted cash	**(53,355)**	(98,578)
	683,843	1,036,788

Restricted cash comprise of amounts held in a debt service accrual account associated with the term loan facilities. The Company's factoring bank account is charged in respect of the additional accounts receivable factoring facility obtained during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

21 SHARE CAPITAL

	2020 RM'000	2019 RM'000
Issued and fully paid 300,000,000 units of ordinary shares		
At 1 January/At 31 December	**300,000**	300,000

22 RETAINED EARNINGS

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

23 OTHER RESERVES

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

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

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

	Cash flow hedge reserve RM'000	Cost of hedging reserve RM'000
2020		
At 1 January	**175,346**	**(34,059)**
Interest rate swap contracts	**(11,042)**	**-**
Refining margin swap contracts	**659,613**	**41,906**
Recycled to profit or loss, included in finance cost (Note 8)	**8,426**	**-**
Recycled to profit or loss, included in purchases	**(823,935)**	**-**
Deferred tax	**41,144**	**(10,057)**
At 31 December	**49,552**	**(2,210)**
2019		
At 1 January	196,512	(32,373)
Interest rate swap contracts	(8,802)	-
Refining margin swap contracts	76,486	(2,218)
Recycled to profit or loss, included in finance cost (Note 8)	2,688	-
Recycled to profit or loss, included in purchases	(98,222)	-
Deferred tax	6,684	532
At 31 December	175,346	(34,059)

(b) Exchange translation reserve

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

24 TRADE AND OTHER PAYABLES

	2020 RM'000	2019 RM'000
Trade payables	**796,748**	714,235
Accruals for crude oil and petroleum products	**348,284**	946,463
Sundry accruals	**47,105**	91,931
Accruals for consumables and services	**3,487**	3,195
Accruals for capital expenditure	**112,892**	157,602
	1,308,516	1,913,426

The Company's trade payables and accruals for crude oil and petroleum products are non-interest bearing, unsecured, except for a balance amounting to RM880,565,000 (2019: RM491,130,000) which is secured by a charge against the Company's hydrocarbon inventories and receivables as mentioned in Notes 16 and 17. The credit terms for trade payables range from 30 to 60 days (2019: 30 to 45 days).

25 AMOUNTS DUE TO IMMEDIATE HOLDING COMPANY AND RELATED COMPANY

As at 31 December 2020, amounts due to immediate holding company and related company are unsecured. Amounts due to immediate holding company and related company have credit terms of 30 days.

26 BORROWINGS

	2020 RM'000	2019 RM'000
Term loans and revolving credits (secured)	**799,807**	1,381,913
Less: Amount repayable within 12 months	**(250,689)**	(796,054)
Amount repayable after 12 months	**549,118**	585,859

The remaining maturities of the borrowings are as follows:

	2020 RM'000	2019 RM'000
Within 1 year	**250,689**	796,054
More than 1 year and less than 2 years	**242,026**	92,766
More than 2 years and less than 5 years	**307,092**	493,093
	799,807	1,381,913

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

26 BORROWINGS (continued)

Detailed below are changes in liabilities arising from financing activities:

	2020 RM'000	2019 RM'000
At 1 January	**1,381,913**	1,150,632
Proceeds from borrowings	**980,606**	4,518,922
Repayment of borrowings (includes interest paid)	**(1,588,009)**	(4,320,682)
Non-cash changes:		
• Interest accrued	**28,464**	47,700
• Amortisation of term loan commitment fees	**177**	166
• Effect of exchange rate changes	**(3,344)**	(14,825)
At 31 December	**799,807**	1,381,913

As at 31 December 2020 and 31 December 2019, the Company does not have any unsecured borrowings.

Details of the facilities are set out below:

- The term loan principal is repayable every 6 to 12 months until final maturity date in January 2023.
- The revolving credits are short term and will mature within one year from the reporting date.
- Both the term loans and revolving credits are subject to interest at LIBOR + 1.60% per annum.
- The borrowings are secured:
  - by way of a first fixed charge, the refinery plant owned by the Company and the Company's interest in the refinery plant. The refinery plant means assets, fixtures and equipment described further in the valuation report issued by Appraisal & Valuation Consultants Ltd dated 16 May 2017 and excludes stock in trade, such as feedstock, intermediate and finished products, and land;
  - by way of a first floating charge, the Company's undertaking and all assets, both present and future in the refinery plant as stated above if and insofar as the charges therein contained shall for any reason be ineffective as fixed charges;
  - a charge over lands belonging to the Company; and
  - by way of a first fixed charge and assignment and agrees to assign absolutely to the Chargee, free from all liens, charges and other encumbrances, each designated bank account (including the debt service reserve account, disbursement account, income accounts and settlement accounts, which are further defined in the relevant security document), all the Company's present and future rights, title and interest in and to such designated accounts and all amounts (including interest) standing to the credit of the designated bank accounts.

The effective interest rates of the Company's borrowings at the end of the reporting period ranged between 1.74% to 3.52% (2019: 3.50% to 4.34%) per annum.

The fair value of borrowings outstanding as at 31 December 2020 and 31 December 2019 approximated its carrying amount.

27 DEFERRED TAXATION

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

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

	2020 RM'000	**2019 RM'000**
As at 1 January as previously stated	**-**	(38,192)
Effects of transitioning to MFRS 16	**-**	341
At 1 January/As restated as at 1 January	**(141,222)**	(37,851)
Credited/(charged) to profit or loss (Note 10):		
- property, plant and equipment	**1,039**	(35,458)
- unrealised foreign exchange	**954**	(3,062)
- derivative financial assets	**12,011**	(18,361)
- inventories	**(694)**	88
- trade receivables	**6,286**	-
- unused tax losses	**(9,286)**	(40,472)
- other payables and accruals	**1,497**	(645)
- derivative financial liabilities	**(16,542)**	27,705
- unabsorbed capital allowances	**-**	(40,918)
- right-of-use assets	**1,771**	1,951
- lease liabilities	**(1,737)**	(1,801)
	(4,701)	(110,973)
Credited to other comprehensive income (Note 23)		
- cash flow hedge reserve and cost of hedging reserve	**31,087**	7,216
Effect of exchange rate changes	**-**	386
As at 31 December	**(114,836)**	(141,222)
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	**(169,364)**	(170,403)
- unrealised foreign exchange	**(2,171)**	(3,125)
- derivative financial assets	**(32,317)**	(78,281)
- right-of-use assets	**(5,245)**	(7,016)
- inventories	**(606)**	-
	(209,703)	(258,825)
Offsetting	**94,867**	117,603
As at 31 December (after offsetting)	**(114,836)**	(141,222)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

27 DEFERRED TAXATION (continued)

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

	2020 RM'000	2019 RM'000
Deferred tax assets (before offsetting):		
- unused tax losses	**62,332**	71,618
- inventories	**-**	88
- other payables and accruals	**4,286**	2,789
- derivative financial liabilities	**16,319**	35,727
- lease liabilities	**5,644**	7,381
- receivables	**6,286**	-
	94,867	117,603
Offsetting	**(94,867)**	(117,603)
As at 31 December (after offsetting)	**-**	-

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

	2020 RM'000	2019 RM'000
Deferred tax liabilities:		
- to be settled after more than 12 months	**(163,646)**	(164,422)
- to be settled within 12 months	**(46,057)**	(94,403)
	(209,703)	(258,825)
Deferred tax assets:		
- to be recovered after more than 12 months	**76,221**	80,304
- to be recovered within 12 months	**18,646**	37,299
	94,867	117,603
Deferred tax liabilities, net	**(114,836)**	(141,222)

The benefits of unutilised tax losses can be carried for seven consecutive years of assessment ("YA") i.e. YA2019 to YA2025 based on the Malaysia Finance Act 2018. The benefits will be obtained when the Company derives future assessable income of a nature and of an amount sufficient for these carried forward tax losses to be utilised.

In the previous financial year, deferred tax assets has not been recognised in respect of unutilised tax losses amounted to RM188,300,000 because it is not probable that sufficient taxable profit will be available within the first six years (i.e. YA2020 to YA2025) against which the tax losses can be utilised.

28 SIGNIFICANT RELATED PARTIES DISCLOSURES

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

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

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

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

	2020 RM'000	2019 RM'000
Transactions with immediate holding company: Malaysia Hengyuan International Limited ("MHIL")		
Income		
(i) Sale of refined products	**274,791**	273,127
Expenses		
(i) Purchase of refined products	**(58,800)**	(8,459)
(ii) Central management and administrative charges	**(52)**	(6,084)
(iii) Technical advisory charges	**-**	(7,345)
Transactions with a fellow subsidiary of the immediate holding company:		
Expenses		
(i) Purchase of refined products	**(646)**	(5,033)
(ii) Central management and administrative charges	**(8,449)**	(3,480)
(iii) Technical advisory charges	**(24,020)**	(10,767)

Key management personnel are those 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.

	2020 RM'000	2019 RM'000
Compensation for key management personnel:		
- salaries, bonus and allowances	**7,474**	7,744
- fees	**1,983**	1,933
- defined contribution plan	**207**	366
- benefits in kind	**2**	4

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

29 COMMITMENTS TO OIL SPILL FUND

The Company is a member of the International Oil Pollution Compensation ("IOPC") 1992 Fund and Petroleum Industry of Malaysia Mutual Aid Group ("PIMMAG") (collectively as "Funds"). The purpose of the Funds is to help compensate parties that suffer financial loss as a result of oil spill from tankers. The Company makes contributions to the Funds depending on specific oil spill incidents, which give rise to payments of compensation by the Funds.

30 CAPITAL COMMITMENTS

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

	2020 RM'000	2019 RM'000
Approved and contracted for	**185,135**	291,181
Approved but not contracted for	**97,076**	185,052

31 SEGMENTAL INFORMATION

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

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

In 2020, one customer on an individual basis, contributed revenue exceeding 59% (2019: 69%) of total revenue for the financial year, amounting to RM4,216,479,000 (2019: RM8,725,453,000).

32 FINANCIAL INSTRUMENTS BY CATEGORY

	2020 RM'000	2019 RM'000
Financial assets		
Financial assets designated as hedging instrument		
- Derivative financial assets	**75,504**	216,449
Financial assets measured at fair value through profit or loss		
- Derivative financial assets	**59,676**	109,711
Financial assets at amortised cost		
- Trade receivables	**513,451**	713,863
- Other receivables excluding prepayment and statutory assets	**19,593**	8,602
- Bank balances	**737,198**	1,135,366
	1,270,242	1,857,831
Total	**1,405,422**	2,183,991
Financial liabilities		
Financial liabilities designated as hedging instrument		
- Derivative financial liabilities	**16,291**	27,517
Financial liabilities measured at fair value through profit or loss		
- Derivative financial liabilities	**53,233**	122,168
Other financial liabilities at amortised cost		
- Trade and other payables excluding statutory liabilities	**1,291,309**	1,900,454
- Amounts due to immediate holding company and related company	**14,317**	23,749
- Borrowings	**799,807**	1,381,913
- Lease liabilities	**23,518**	30,757
	2,128,951	3,336,873
Total	**2,198,475**	3,486,558

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

33 DIVIDENDS

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

The Company did not declare any dividend for the financial year ended 31 December 2019.

34 SIGNIFICANT EVENT

The Company has recorded 43.2% lower revenue in 2020 as compared to 2019, mainly due to the lower sales volume coupled with lower quoted product prices resulted from the implementation of lockdown and travel restrictions in Malaysia as well as globally. Notwithstanding the unprecedented challenges faced, the hedging strategy undertaken by the Company has protected the Company's gross profit margin and uplifted the gross profit margin. To manage liquidity, the Company has utilised the existing financing facilities and obtained additional accounts receivable factoring facility as disclosed in Note 4(c). Based on the liquidity assessment performed for the next 12 months from the reporting date, the Directors concluded that the Company would have sufficient cash flows to fulfill its obligations and finance its ongoing operations. The Company has also carried out an impairment review on the refinery assets and an assessment on the net realisable value of its hydrocarbon inventories in view of the impact of COVID-19 on the business activities. The result of the assessments are set out in Note 3(a) and Note 3(c).

The rollout of global COVID-19 vaccination program has raised the hopes for the turnaround in the pandemic in 2021. However, the potential renewed waves and the virus mutations may continue to loom the world's economies with uncertainties. The Company will continue to monitor the situation, take appropriate and timely actions to minimise the impact brought by the pandemic in order to ensure the sustainability of the business.

35 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 March 2021.

COMPANY PROPERTIES

AS AT 31 DECEMBER 2020

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	Buildings NBV RM'000	Net book value RM'000
1	Freehold	1236 – 1238 GRN 62766 – 62768 87, Jln Resthouse Port Dickson	76,973	A club house and training centre	56 years	01.01.1991	984	–	1,149	2,133
2	Freehold	Lot 3 HS(D) 1310 Jln Pantai Port Dickson	6,284,186	Refinery	57 years	01.01.1991	20,091	833	32,538	53,462
3	Freehold	Lot 138 GRN 51925 Port Dickson	39,115	Oil Spill Response Centre	56 years	01.01.1991	239	–	235	474
4	Freehold	Lot 798 GM 3203 Kg Arab Port Dickson	49,955	Tank Farm	32 years	01.01.1991	128	–	–	128
5	Freehold	Lot 196 GM 3208 Kg Gelam Port Dickson	242,845	Reserved Land	33 years	01.01.1991	628	–	–	628
6	Freehold	Lot 195 GM 3207 Kg Gelam Port Dickson	249,389	Reserved Land	33 years	01.01.1991	634	–	–	634
7	Freehold	PT 1369 HSD 35655 Port Dickson	1,725,885	Reserved Land, Tank Farm	34 years	01.01.1991	5,212	–	–	5,212
8	Freehold	PT 1370 HSD 35656 Port Dickson	378,384	Reserved Land, TA Office	34 years	01.01.1991	1,107	–	229	1,336
9	Freehold	PT 1371 HSD 35657 Port Dickson	132,030	Reserved Land	34 years	01.01.1991	386	–	–	386
10	Freehold	PT 10747 HSD 35658 Port Dickson	205,558	Reserved Land	34 years	03.09.1991	543	–	–	543
11	Freehold	Lot 12284 & 12290 GM 1961, GM 3201 Port Dickson	112,052	Reserved Land, MPP Facilities	25 years	31.08.2000	438	–	–	438
12	Freehold	LoT 596 GRN 244911 Port Dickson	100,826	Tank Farm	25 years	31.08.2000	541	–	–	541
13	Freehold	Lot 5471 – 5494 GM 994 – 1017 Lot 5496 – 5540 GM 1019 – 1063 Port Dickson	188,799	Tank Farm	23 years	31.08.2000	1,150	–	–	1,150
14	Freehold	Lot 950 GM 2721 Port Dickson	104,819	Reserved Land	24 years	31.08.2000	664	–	–	664

COMPANY PROPERTIES

AS AT 31 DECEMBER 2020

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	Buildings NBV RM'000	Net book value RM'000
15	Freehold	Lot 12425 – 12456 GRN 146936 –146967 Lot 5441 HSD 4418 Lot 12458 – 12486 GRN 146968 – 146996 Port Dickson	212,544	Tank Farm	24 years	31.08.2000	1,111	–	–	1,111
16	Freehold	Lot 834 GRN 70791 Port Dickson	353,110	Reserved Land	25 years	31.08.2000	1,558	–	–	1,558
17	Freehold	Lot 6674 GM 2774 Port Dickson	97,726	For Pipeline to Jetty	31 years	01.01.1991	534	–	–	534
18	Freehold	Lot 1323 GM 3199 Port Dickson	178,595	For Pipeline to Jetty	31 years	01.01.1991	828	–	–	828
19	Freehold	Lot 6671 GM 2771 Port Dickson	84,249	For Pipeline to Jetty	31 years	01.01.1991	425	–	–	425
20	Freehold	Lot 6672 GM 3195 Kg Gelam Port Dickson	59,395	For Pipeline to Jetty	31 years	01.01.1991	328	–	–	328
21	Freehold	Lot 192 GM 3206 Kg Gelam Port Dickson	148,101	For Pipeline to Jetty	32 years	01.01.1991	405	–	–	405
22	Freehold	Lot 247 GM 3202 Port Dickson	120,330	For Pipeline to Jetty	32 years	01.01.1991	303	–	–	303
23	Freehold	Lot 191 GM 3205 Kg Gelam Port Dickson	134,495	For Pipeline to Jetty	33 years	01.01.1991	566	–	–	566
24	Freehold	Lot 190 GM 3204 Kg Gelam Port Dickson	131,770	For Pipeline to Jetty	33 years	01.01.1991	527	–	–	527
25	Freehold	Lot 909 GRN 69309 Port Dickson	86,768	For Pipeline to Jetty	29 years	01.01.1991	394	–	–	394
26	Freehold	Lots 178 – 180 GM 3196 – 3198 Port Dickson	448,673	For Pipeline to Jetty	29 years	01.01.1991	1,984	–	–	1,984
27	Freehold	Lot 1300 GM 3194 Kg Gelam Port Dickson	58,200	For Pipeline to Jetty	30 years	01.01.1991	368	–	–	368
28	Freehold	Lot 3948 – 3951 GM 2619 – 2622 Port Dickson	5,042	Refinery Buffer Zone	24 years	30.04.2001	315	–	–	315

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	Buildings NBV RM'000	Net book value RM'000
29	Freehold	Lot 3974 – 3977 GM 2632 – 2635 Port Dickson	5,042	Refinery Buffer Zone	24 years	30.04.2001	315	–	–	315
30	Freehold	Lot 4961 – 4968 GM 475 – 482 Port Dickson	34,789	Refinery Buffer Zone	24 years	30.04.2001	1,158	–	–	1,158
31	Freehold	Lot 5402 – 5407 GM 345 – 350 Port Dickson	21,883	Refinery Buffer Zone	24 years	30.04.2001	821	–	–	821
32	Freehold	Lot 10533 GM 1653 Kg Gelam Port Dickson	2,002	Refinery Buffer Zone	27 years	31.08.2000	18	–	–	18
33	Freehold	Lot 9196 – 9214 GM 1770 – 1788 & Lot 12105 GM 2959 Kg Gelam Port Dickson	40,322	Refinery Buffer Zone	27 years	31.08.2000	363	–	–	363
34	Freehold	Lot 12104 GM 2859 Kg Gelam Port Dickson	570	Refinery Buffer Zone	27 years	31.08.2000	56	–	–	56
35	Freehold	Lot 1312 – 1314 GM 1600 – 1602 Lot 1317 – 1318 GM 1605 – 1606 Port Dickson	49,729	Reserved Land	56 years	01.01.1991	307	–	–	307
36	Freehold	Lot 764 GRN 65945 Port Dickson	9,009	Reserved Land	57 years	01.01.1991	56	–	–	56
37	Freehold	Lot 12086 GM 3200 Port Dickson	62,614	Reserved Land	13 years	28.03.2008	548	–	–	548
38	Freehold	Lot 9060 GM 2720 Port Dickson	9,149	Reserved Land	57 years	01.01.1991	183	–	–	183
39	Leasehold	PT 9451 HSD 29075 Mukim Port Dickson	2,822,620	Jetty Land	28 years	10.04.2004	1,590	–	304	1,894
			15,067,542				**47,809**	**833**	**34,455**	**83,097**

ANALYSIS OF SHAREHOLDINGS

AS AT 31 MARCH 2021

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

Class of Shares : Ordinary shares

Voting Rights : One vote per ordinary share held

Size of Holdings	No of Holders	%	No of Shares	%
1 – 99	997	5.674	6,280	0.002
100 – 1,000	6,567	37.378	4,733,416	1.577
1,001 – 10,000	8,377	47.680	32,247,355	10.749
10,001 – 100,000	1,493	8.497	39,754,445	13.251
100,001 – 14,999,999 (*)	133	0.757	70,189,502	23.396
15,000,000 and above (**)	2	0.011	153,069,002	51.023
Total	17,569	100.000	300,000,000	100.000

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

List of Top 30 Shareholders

No	Name	Shareholdings	%
1	RHB Nominees (Tempatan) Sdn Bhd Malaysia Hengyuan International Limited	113,701,002	37.900
2	AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account - Ambank (M) Berhad for Malaysia Hengyuan International Limited	39,368,000	13.122
3	AMANAHRAYA Trustees Berhad Amanah Saham Bumiputera	10,629,100	3.543
4	Foo Khen Ling	7,568,000	2.522
5	Kam Loong Mining Sdn Bhd	6,300,000	2.100
6	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board	3,640,447	1.213
7	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Goh Ching Mun	2,620,000	0.873
8	Tan Kah Hock	2,000,000	0.666
9	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Deva Dassan Solomon (8041850)	1,257,100	0.419
10	Cartaban Nominees (Tempatan) Sdn Bhd PAMB for Prulink Equity Fund	1,252,700	0.417

List of Top 30 Shareholders (continued)

No	Name	Shareholdings	%
11	Ong Lei Im	1,041,000	0.347
12	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (UOB AMM6939-406)	1,000,000	0.333
13	Wong Siew Fah	910,000	0.303
14	Citigroup Nominees (Asing) Sdn Bhd Exempt an for Citibank New York (Norges Bank 19)	903,560	0.301
15	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Helina Shanti Solomon (7001761)	871,000	0.290
16	UOB Kay Hian Nominees (Asing) Sdn Bhd Exempt an for UOB Kay Hian Pte Ltd (A/C Clients)	855,650	0.285
17	Tan Ah Heng	851,000	0.283
18	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Inbamanay A/P M J Arumanayagam (8061712)	812,000	0.270
19	Eletechnics Sdn Bhd	800,000	0.266
20	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Selina Sharmalar Solomon (8112136)	798,000	0.266
21	Malaysia Nominees (Tempatan) Sendirian Berhad Lee Foundation, States of Malaya (00-00197-000)	790,000	0.263
22	Citigroup Nominees (Asing) Sdn Bhd CBNY for Dimensional Emerging Markets Value Fund	765,263	0.255
23	Reuben Tan Cherh Chung	700,000	0.233
24	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB for Lim Ka Kian (PB)	582,300	0.194
25	HLB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Deva Dassan Solomon	570,100	0.190
26	Kenanga Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Ye Yu @ Ye Kim Onn	535,500	0.178
27	Kam Loong Credit Sdn Bhd	530,500	0.176
28	CGS-CIMB Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Bong Lee Min (MK0082)	520,400	0.173
29	Yong Koy	510,000	0.170
30	UOB Kay Hian Nominees (Tempatan) Sdn Bhd Exempt an for UOB Kay Hian Pte Ltd (A/C Clients)	480,950	0.160
		203,163,572	67.721

ANALYSIS OF SHAREHOLDINGS
AS AT 31 MARCH 2021

Information on Substantial Holders' Holdings

No	Name	Investor ID	Shareholdings	%
1	RHB Nominees (Tempatan) Sdn Bhd Malaysia Hengyuan International Limited	259064V	113,701,002	37.900
2	AMSEC Nominees (Tempatan) Sdn Bhd Pledged Securities Account - Ambank (M) Berhad for Malaysia Hengyuan International Limited	102918T	39,368,000	13.122
	Total		**153,069,002**	**51.023**

Information on Directors Holdings

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

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

Directors' Meeting Attendance for the Financial Year Ended 2020

The following information sets out the attendance of each Director at general meetings, board meetings and board committee meetings of the Company held in the year 2020.

Board and General Meetings

Name of Members	Board Meeting Attendance During the Director's Term in Office		General Meeting Attendance During the Director's Term in Office	
Wang, YouDe	5/5	100%	1/1	100%
Wang, ZongQuan	5/5	100%	1/1	100%
Alan Hamzah Sendut	5/5	100%	1/1	100%
Fauziah Hisham	5/5	100%	1/1	100%
Liang Kok Siang	5/5	100%	1/1	100%
Surinderdeep Singh Mohindar Singh	5/5	100%	1/1	100%
Loy Swee Im[(a)]	1/1	100%	–	–

Note:
Total number of Board meetings in 2020: 5

Total number of General Meeting: 1

(a) Loy Swee Im was appointed as a Non-Independent Non-Executive Director of HRC with effect from 18 August 2020.

Board Audit Committee Meeting

Name of Members	Attendance During the Director's Term in Office	
Alan Hamzah Sendut (Chair)	5/5	100%
Fauziah Hisham	5/5	100%
Liang Kok Siang	5/5	100%
Surinderdeep Singh Mohindar Singh	5/5	100%

Note:
Total number of Board Audit Committee meetings in 2020: 5

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

Board Nominating and Remuneration Committee Meeting

Name of Members	Attendance During the Director's Term in Office	
Surinderdeep Singh Mohindar Singh (Chair)	4/4	100%
Wang, YouDe	4/4	100%
Fauziah Hisham	4/4	100%

Note:
Total number of Board Nominating and Remuneration Committee meetings in 2020: 4

Board Risk Management Committee Meeting

Name of Members	Attendance During the Director's Term in Office	
Wang, ZongQuan (Chair)[(a)]	3/3	100%
Alan Hamzah Sendut	4/4	100%
Liang Kok Siang	4/4	100%
Loy Swee Im (Chair)[(b)]	1/1	100%

Note:
Total number of Board Risk Management Committee meetings in 2020: 4

(a) Wang, ZongQuan resigned as Chair of the Board Risk Management Committee with effect from 18 August 2020.

(b) Loy Swee Im was appointed as Chair of the Board Risk Management Committee with effect from 18 August 2020.

Board Projects Review Committee Meeting

Name of Members	Attendance During the Director's Term in Office	
Wang, ZongQuan (Chair)[(a)]	2/2	100%
Wang, YouDe[(b)]	2/2	100%
Surinderdeep Singh Mohindar Singh	2/2	100%

Note:
Total number of Board Projects Review Committee meetings in 2020: 2

(a) Wang, ZongQuan was appointed as Chair of the Board Projects Review Committee with effect from 18 August 2020.

(b) Wang, YouDe resigned as Chair of the Board Projects Review Committee with effect from 18 August 2020. He remains as a member of the Committee.

Board Tender Committee Meeting

Name of Members	Attendance During the Director's Term in Office	
Wang, YouDe (Chair)	1/1	100%
Wang, ZongQuan	1/1	100%
Alan Hamzah Sendut	1/1	100%
Liang Kok Siang	1/1	100%

Note:
Total number of Board Tender Committee meetings in 2020: 1

Board Whistleblowing Committee Meeting

Name of Members	Attendance During the Director's Term in Office	
Liang Kok Siang (Chair)	1/1	100%
Wang, YouDe	1/1	100%
Alan Hamzah Sendut	1/1	100%

Note:
Total number of Board Whistleblowing Committee meetings in 2020: 1

ADDITIONAL CORPORATE GOVERNANCE DISCLOSURES

Directors' Training

A summary of the in-house continuing education programmes and external trainings attended by the Directors of HRC for the financial year ended 2020 are set out below:

1 January 2020 to 31 March 2020	1 April 2020 to 30 June 2020
• Raising Defences - Section 17A, Malaysian Anti-Corruption Commission (MACC) Act, organised by The Iclif Leadership and Governance Centre (Iclif) • The Guru Series "Driving the Analytics Revolution. How Did Amazon.com Do It", organised by Maybank Group Human Capital • Breakfast Talk on "Why Sustainability Matters?", organised by Malaysian Institute of Corporate Governance (MICG) • Qualified Risk Directors Programme - Series 1: Risk Oversight Practices, organised by Institute of Enterprise Risk Practitioners (iERP) • Qualified Risk Directors Programme - Series 2: Corporate Culture and ERM, organised by iERP	• Qualified Risk Directors Programme - Series 3: Risk Appetite, Tolerance and Board Oversight, organised by iERP • Qualified Risk Directors Programme - Series 4: Strategic ERM: A Primer for Directors, organised by iERP • Qualified Risk Directors Programme - Series 5: Evolving Expectations for Boards, organised by iERP • Qualified Risk Directors Programme - Series 6: The Role of Boards in Fraud Risk Management, organised by iERP • A Practical ERM Guide to Responding to the COVID-19 Outbreak and Future Challenges, organised by iERP • COVID-19 and Current Economic Reality: Implications for Financial Stability, organised by Financial Institutions Director's Education Programme (FIDE) • Outthink The Competition: Excelling in a Post COVID-19 World, organised by FIDE • Board & Executive Pay During and Post COVID-19 - organised by Asia School of Business

1 July 2020 to 30 September 2020	1 October 2020 to 31 December 2020
• Digital Financial Institutions Series: Managing Virtual Banking and Insurance Businesses, organised by FIDE • HR in the 2020s: Culture Sculptor, Risk Manager, and More, organised by FIDE • Building & Reporting A Culture of Integrity, organised by MICG • Mandatory Accreditation Programme (MAP), organised by Asia School of Business • In-House Directors' Training: Strategic Engagement on Sustainability, organised by Hong Leong Bank (HLB) and Hong Leong Islamic Bank (HLISB) • In-House Directors' Training: AMLA 2001 - Risk, Challenges, Governance & Transparency in Managing Business & Compliance, organised by Hong Leong MSIG Takaful Berhad (HLMT) • Maybank Group Annual Board Risk Workshop, organised by Group Risk, Maybank • Annual Dialogue with the Governor of BNM, organised by Bank Negara Malaysia (BNM) and FIDE • 3rd ABCOMP Online - General Membership Meeting, organised by Association of Bank Compliance Officers, Inc. (in Philippines) • BSP Supervisory Assessment Framework to Replace the CAMELS and ROCA Rating Systems for BSP-Supervised Financial Institutions, organised by Association of Bank Compliance Officers, Inc. (in Philippines) • Virtual Women on the Move Leadership Day, organised by JPMorgan Chase & Co	• Fraud Risk Management: Tools and Techniques, organised by MICG • Qualified Risk Directors Programme - Series 13: Establishing An Empowered Audit Committee, organised by iERP • 5th Distinguished Board Leadership Webinar Climate Action: The Board's Leadership in Greening the Financial Sector, organised by FIDE • 6th Distinguished Board Leadership Webinar Green Fintech: Ping An's Journey to Becoming a Top ESG-performing Financial Institution, organised by FIDE • Using social media for the Boardroom, organised by Institute of Corporate Directors Malaysia (ICDM) • YTI Memorial Lecture 2020 - How Safe are the Safe Haven Assets in Malaysia? Lessons from the COVID-19 Pandemic, organised by Pemodalan Nasional Berhad (PNB) Research Institute • Half-Day Refresher Training: AMLA 2001 - Risk, Challenges, Governance & Transparency in Managing Business & Compliance, organised by HLB and HLISB • Islamic Finance for Board of Directors Programme, organised by BNM / ISRA Consulting - International Shari'ah Research Academy for Islamic Finance • 4th ABCOMP Online General Membership Meeting, organised by Association of Bank Compliance Officers, Inc. (in Philippines). Forum on Anti-Money Laundering and Countering the Financing of Terrorism (i) The Philippine State responds to Terrorism: An Enabling Law and Discourse (ii) Risk-Based Approach: Implementing an Enterprise-Wide ML/TF Risk Assessment Process • Zone To Win Workshop, organised by Group Human Capital, Maybank

Material Contracts

There were no material contracts entered into by HRC involving the interests of Directors, the Chief Executive Officer or major shareholders either still subsisting at the end of the financial year ended 31 December 2020 or entered into since the end of the previous financial year.

DISCLOSURE OF RECURRENT RELATED PARTY TRANSACTIONS

Related Party	Type of Transaction	Value from 1 January 2020 to 23 June 2020 (RM)	Value from 23 June 2020 to 31 December 2020 (RM)	Total of Actual Transactions for Financial Year Ended 2020 (RM)
Shandong Hengyuan Petrochemical Company Limited and its subsidiaries including: (i) Heng Yuan Holdings Limited; (ii) Malaysia Hengyuan International Limited; and (iii) Hengyuan International Sdn Bhd	Sale of petroleum products and crude oil by HRC	241,735,872	33,055,502	274,791,374
	Purchase of petroleum products and crude oil by HRC	45,912,937	13,533,013	59,445,950
	Provision of central management, business support, administrative services and oil and oil products risk management services to HRC	3,633,395	4,867,398	8,500,793
	Provision of technical advisory and consultancy services and research and development advisory services to HRC	9,577,624	14,442,103	24,019,727
	Total	**300,859,828**	**65,898,016**	**366,757,844**

ACRONYMS & ABBREVIATION

AAPG	Audit and Assurance Practice Guide
ABC	Anti-Bribery and Corruption
AGM	Annual General Meeting
AML	Anti-Money Laundering
AMP	Asset Rejuvenation Master Plan
BAC	Board Audit Committee
bbl	Barrel
BEA	Board Effectiveness Assessment
BIP	Business Improvement Plan
BNRC	Board Nomination and Remuneration Committee
BPRC	Board Projects Review Committee
BRMC	Board Risk Management Committee
BTC	Board Tender Committee
BWC	Board Whistleblowing Committee
CCG	Catalytic Cracked Gasoline
CCS	Current Cost of Stock
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGMA	Chartered Global Management Accountant
CIA	Chief Internal Auditor
Code	Code of Conduct
COE	Centre of Excellence
EIA	Energy Information Administration
EII	Energy Intensity Index
ETP	Effluent Treatment Plant
EQP	Ensure Quality Product
FAC	First Aid Case
FIFO	First In First Out
FY	Financial Year
H2GEN	Hydrogen Generation
HR	Human Resources
HRC	Hengyuan Refining Company Berhad
IA	Internal Audit
IAD	Internal Audit Department
IAS	International Accounting Standard
IEA	International Energy Agency
IFRSs	International Financial Reporting Standards
IPF	Instrumentation Protection Function
ISMS	Information Security Management System
KPIs	Key Performance Indicators
LPG	Liquefied Petroleum Gas
LRCCU	Long-Residue Catalytic Cracking Unit
LTI	Lost-Time Injury
MACC	Malaysian Anti-Corruption Commission
MCCG	Malaysia Code of Corporate Governance
MCO	Movement Control Order
ME	Maintenance Execution
MFRSs	Malaysian Financial Reporting Standards
MHIL	Malaysia Hengyuan International Limited
MMLR	Main Market Listing Requirements
MSWG	Minority Shareholders Watch Group
MT	Metric Tonne
MTC	Medical Treatment Case
NCOSH	National Council of Occupational Safety & Health
NMPI	Near Miss and Potential Incident
OA	Office Automation
OPEX	Optimise margins and operational expenditures
PER	Process Effective Review
PMHA	Prime Minister Hibiscus Award
PQRIs	Product Quality Reliability Incidents
PwC	PricewaterhouseCoopers
QHSSE	Quality, Health, Safety, Security and Environment
RM	Ringgit Malaysia
RRPT	Recurrent Related Party Transaction
R&I	Risk & Integrity
RWC	Restricted Work Case
SHOC	Safety Handling of Chemical
SHPC	Shandong Hengyuan Petrochemical Company
SIA	Site Internal Assurance
SOP	standard operating procedures
SP	Social Performance
TOR	Terms of Reference
TRC	Total Recordable Cases
UPDT	Unplanned Down Time
USD	United States Dollar

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PROXY FORM

Hengyuan Refining Company Berhad
Registration No. 196001000259 (3926-U)

CDS Account No of authorised nominee	No of shares held

I / We ____
(Full name in block letters)

NRIC / Passport No____

of ____
(Address in full)

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

______________________________ NRIC / Passport No______________________

of ____
(Address in full)

and____
(Full name in block letters)

NRIC / Passport No______________________________of______________________
(Address in full)

____

or failing him / her, the Chairman of the Meeting as my / our proxy to vote for me / us on my / our behalf at the Sixty-Second Annual General Meeting (62nd AGM) of Hengyuan Refining Company Berhad (the Company) to be held entirely through live streaming from the broadcast venue at **Tricor Business Centre, Manuka 2 & 3 Meeting Room, Unit 29-01, Level 29, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia (Broadcast Venue) on Tuesday, 25 May 2021 at 10.00 a.m.** and at any adjournment thereof.

Resolutions	Descriptions	For	Against
Ordinary Resolution 1	To re-elect Mr Liang Kok Siang as Director of the Company.		
Ordinary Resolution 2	To re-elect Mr Surinderdeep Singh Mohindar Singh as Director of the Company.		
Ordinary Resolution 3	To re-elect Ms Loy Swee Im as Director of the Company.		
Ordinary Resolution 4	To re-appoint Messrs PricewaterhouseCoopers PLT as Auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to fix their remuneration.		
Ordinary Resolution 5	To approve payment of Non-Executive Directors' fees and benefits of up to RM2,300,000 for the period from 1 June 2021 until 31 May 2022.		
Ordinary Resolution 6	Proposed Renewal of Authority to allot and issue shares pursuant to Sections 75 and 76 of the Companies Act 2016.		
Ordinary Resolution 7	Proposed Renewal of Authority for Share Buy-Back.		
Ordinary Resolution 8	Proposed Renewal of Existing Shareholders' Mandate and Proposed 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 ______________ 2021.

____

Signature / Common Seal of Shareholder(s)

Contact No____________________________

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

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

NOTES:-

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

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

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

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

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

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

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

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

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

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

10. The instrument appointing a proxy shall be in writing and signed by the appointor or by his attorney who is authorised in writing. In the case of a corporation, the instrument appointing a proxy or proxies must be made under seal or signed by an officer or an attorney duly authorised.

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

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

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

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

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

    (ii) By Electronic Form
    The proxy form can be submitted electronically via Tricor's TIIH Online website at *https://tiih.online*. Kindly refer to the Administrative Guide on the procedure for electronic lodgement of the proxy form.

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

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

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

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

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

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

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

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

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