**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

In accordance with the approval of the Board of Directors of Hengyuan Refining Company Berhad ("the Company") dated 27 February 2020 the Board hereby announces its unaudited financial results for the fourth quarter ended 31 December 2019.

The condensed financial statements have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard (MFRS) 134 "Interim Financial Reporting" and paragraph 9.22 of the Bursa Malaysia Securities Berhad ("BMSB") Main Market Listing Requirements and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2018.

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**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

## Condensed Statement of Comprehensive Income

| | Note | **Unaudited** Individual quarter ended **31.12.2019 RM'000** | Unaudited Individual quarter ended 31.12.2018 RM'000 | **Unaudited** Financial year ended **31.12.2019 RM'000** | Audited Financial year ended 31.12.2018 RM'000 |
|---|---|---|---|---|---|
| Revenue | **A8** | **3,145,899** | 2,513,364 | **12,637,317** | 11,241,237 |
| Purchases | | **(3,005,560)** | (2,594,760) | **(12,103,110)** | (10,847,829) |
| Gross profit/(loss) | | **140,339** | (81,396) | **534,207** | 393,408 |
| Other income | | **641** | 4,818 | **2,828** | 17,776 |
| Manufacturing expenses | | **(64,173)** | (48,987) | **(216,660)** | (213,860) |
| Administrative expenses | | **(16,738)** | (16,879) | **(71,225)** | (48,122) |
| Depreciation and amortisation | | **(30,714)** | (44,547) | **(144,403)** | (186,134) |
| Other operating (losses)/gains | | **(65,831)** | 74,147 | **(61,124)** | (8,355) |
| Finance cost | | **6,589** | (7,727) | **(22,516)** | (54,311) |
| Reversal of impairment | | **125,513** | 75,152 | **125,513** | 75,152 |
| Profit/(loss) before taxation | **A10** | **95,626** | (45,419) | **146,620** | (24,446) |
| Taxation | **A11** | **(74,059)** | 45,347 | **(111,636)** | 55,288 |
| Profit/(loss) after taxation | | **21,567** | (72) | **34,984** | 30,842 |
| Other comprehensive income/ (expense): | | | | | |
| *Items that will be reclassified to profit or loss:* | | | | | |
| Cash flow hedge - net fair value gain/(loss) on derivatives (net of tax) | | **54,149** | 200,531 | **(21,166)** | 198,239 |
| Cost of hedging reserve (net of tax) | | **2,783** | (40,963) | **(1,686)** | (32,373) |
| *Items that will not be reclassified to profit or loss:* | | | | | |
| Foreign currency translation differences | | **(45,362)** | 5,074 | **(21,368)** | 42,257 |
| | | **11,570** | 164,642 | **(44,220)** | 208,123 |
| Total comprehensive income/(expense) for the financial period/year | | **33,137** | 164,570 | **(9,236)** | 238,965 |
| Earnings per share: | | | | | |
| - basic (sen) | **A9** | **7** | 0 | **12** | 10 |
| - diluted (sen) | **A9** | **N/A** | N/A | **N/A** | N/A |

The above Condensed Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying supplementary notes to these condensed financial statements.

**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

## Condensed Statement of Financial Position

| | Note | Unaudited As at 31.12.2019 RM'000 | Audited As at 31.12.2018 RM'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **1,919,988** | 1,280,770 |
| Prepaid lease payments | | **1,610** | 1,643 |
| Intangible assets | | **14,070** | 23,032 |
| Right-of-use assets | | **29,233** | - |
| Derivative financial assets | **A18** | **5,087** | 136,852 |
| | | **1,969,988** | 1,442,297 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,491,087** | 1,218,160 |
| Trade receivables | | **713,863** | 915,840 |
| Amount due from immediate holding company | | **-** | 7,745 |
| Other receivables and prepayments | | **18,510** | 228,343 |
| Tax recoverable | | **2,208** | 1,627 |
| Derivative financial assets | **A18** | **321,073** | 151,439 |
| Bank balances | | **1,135,366** | 204,880 |
| | | **3,682,107** | 2,728,034 |
| **TOTAL ASSETS** | | **5,652,095** | 4,170,331 |
| **CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | |
| Share capital | | **300,000** | 300,000 |
| Retained earnings | | **1,698,944** | 1,665,040 |
| Cash flow hedge reserve | | **175,346** | 196,512 |
| Cost of hedging reserve | | **(34,059)** | (32,373) |
| Exchange translation reserve | | **(128,888)** | (107,520) |
| | | **2,011,343** | 2,021,659 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | **1,913,426** | 920,287 |
| Amount due to related companies | | **23,749** | 24,982 |
| Lease liabilities | | **7,336** | - |
| Derivative financial liabilities | **A18** | **136,086** | 8,250 |
| Borrowings | **A19** | **796,054** | 555,095 |
| | | **2,876,651** | 1,508,614 |
| **NON-CURRENT LIABILITIES** | | | |
| Derivative financial liabilities | **A18** | **13,599** | 6,329 |
| Lease liabilities | | **23,421** | - |
| Borrowings | **A19** | **585,859** | 595,537 |
| Deferred tax liabilities | | **141,222** | 38,192 |
| | | **764,101** | 640,058 |
| **TOTAL EQUITY AND LIABILITIES** | | **5,652,095** | 4,170,331 |

The above Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying supplementary notes to these condensed financial statements.

**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

## Condensed Statement of Changes in Equity

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

**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

## Condensed Statement of Changes in Equity *(continued)*

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

The above Condensed Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying supplementary notes to these condensed financial statements.

**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

## Condensed Statement of Cash Flows

| | Note | Unaudited<br>Financial year ended<br>31.12.2019<br>RM'000 | Audited<br><br>31.12.2018<br>RM'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/(loss) before taxation | | **146,620** | (24,446) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | **121,849** | 169,484 |
| Depreciation of right-of-use assets | | **8,131** | - |
| Amortisation of intangible assets | | **14,405** | 16,634 |
| Amortisation of prepaid lease payments | | **18** | 16 |
| Write-off of property, plant and equipment | | **2,879** | - |
| Allowance for inventories | | **369** | - |
| Amortisation of term loan commitment fees | | **166** | 15,142 |
| Interest expense | | **22,350** | 39,169 |
| Interest income | | **(2,262)** | (16,623) |
| Gain on modification of lease contracts | | **(533)** | - |
| Gain on disposal of property, plant and equipment | | **(33)** | - |
| Net fair value loss/(gain) on derivative financial instruments | | **43,798** | (26,847) |
| Net foreign exchange loss - unrealised | | **23,274** | 13,384 |
| Reversal of allowance for doubtful debt | | **-** | (48) |
| Reversal of impairment | | **(125,513)** | (75,152) |
| Operating profit before changes in working capital | | **255,518** | 110,713 |
| | | | |
| Changes in working capital: | | | |
| Inventories | | **(263,079)** | (117,077) |
| Trade and other receivables and amount due from immediate holding company | | **391,040** | 116,645 |
| Trade and other payables and amount due to related companies | | **946,128** | 254,580 |
| Cash generated from operations | | **1,329,607** | 364,861 |
| Interest received | | **2,262** | 16,623 |
| Net tax paid | | **(1,135)** | (1,561) |
| Net cash flows generated from operating activities | | **1,330,734** | 379,923 |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(568,328)** | (532,474) |
| Purchase of intangible assets | | **(5,588)** | (4,690) |
| Proceeds from disposal of property, plant and equipment | | **33** | - |
| Net cash flows used in investing activities | | **(573,883)** | (537,164) |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | **(4,274,544)** | (2,239,076) |
| Proceeds from borrowings | | **4,518,922** | 2,145,825 |
| Interest paid | | **(49,961)** | (43,414) |
| Repayment of principal portion of lease liabilities | | **(9,025)** | - |
| Dividends paid | | **-** | (6,000) |
| Restricted cash for term loan facilities | | **(22,793)** | (74,878) |
| Refund of security deposit with a licensed bank | | **-** | 19,897 |
| Net cash flows generated from/(used in) financing activities | | **162,599** | (197,646) |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **919,450** | (354,887) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | | **128,033** | 492,886 |
| **EFFECTS OF EXCHANGE RATE CHANGES** | | **(10,695)** | (9,966) |
| **CASH AND CASH EQUVALENTS AT THE END OF THE YEAR** | **A21** | **1,036,788** | 128,033 |

The above Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying supplementary notes to these condensed financial statements.

## Part A – Explanatory Notes Pursuant to MFRS 134 Interim Financial Reporting

### A1 Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard ("MFRS") 134 "Interim Financial Reporting" and paragraph 9.22 of the Bursa Malaysia Securities Berhad ("BMSB") Main Market Listing Requirements. These condensed financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. This report should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2018.

The explanatory notes to this report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the financial year ended 31 December 2018.

During the quarter ended 31 December 2019, the Board of Directors have reassessed the functional currency of the Company and concluded that Ringgit Malaysia ("RM") more faithfully represent the economic effects of the underlying transactions, events and conditions that the Company is subject to as it further increased its sourcing of crude oil purchases locally, a significant proportion of its operating expenses were denominated in RM and it had entered into a RM denominated overdraft facility. The Board, being the Chief Operating Decision Makers, have also approved its business plan prepared in RM as they are of the view that performance measured in RM is more reflective of the Company's results of operations.

The financial information presented herein have been prepared in accordance with the accounting policies used in preparing the audited financial statements for the financial year ended 31 December 2018, and for the following standards and interpretation which became effective on 1 January 2019:

**(a) Standards and amendments to published standards that are effective for financial year beginning 1 January 2019**

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

**A1 Basis of preparation (continued)**

**(a) Standards and amendments to published standards that are effective for financial year beginning 1 January 2019 (continued)**

The main effects of the adoption of MFRSs and amendments to published standards above is summarised below:

- MFRS 16 “Leases”

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

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

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

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

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

  The Company has adopted MFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

**A1 Basis of preparation (continued)**

**(a) Standards and amendments to published standards that are effective for financial year beginning 1 January 2019 (continued)**

- MFRS 16 "Leases" (continued)

  On adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of MFRS 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates as of 1 January 2019.

  The associated right-of-use assets were measured on a retrospective basis as if the new rules had been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets on 1 January 2019.

  The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

  - Right-of-use of assets – increase by RM34,977,000
  - Deferred tax assets- increase by RM341,000
  - Lease liabilities – increase by RM36,398,000

  The net impact on retained earnings on 1 January 2019 was a decrease of RM1,080,000.

## A1 Basis of preparation (continued)

### (a) Standards and amendments to published standards that are effective for financial year beginning 1 January 2019 (continued)

- MFRS 16 "Leases" (continued)

<u>Practical expedients applied</u>

In applying MFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the accounting for operating leases for which the underlying asset is of low value
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## A1 Basis of preparation (continued)

### (a) Standards and amendments to published standards that are effective for financial year beginning 1 January 2019 (continued)

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

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distribution to owners. Therefore, the Company will recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. The adoption of the Amendments to MFRS 112 did not have any material impact on the Company as the Company's current practice is in line with these amendments.

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

  The amendments clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings. Since the Company's current practice is in line with these amendments, there is no material impact on its financial statements.

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

- Amendments to MFRS 101 – "Definition of Material" (effective from 1 January 2020)
- Amendments to MFRS 108 – "Definition of Material" (effective from 1 January 2020)

  The financial impact that may arise from the adoption of the above new standards are being assessed by the Company.

## A2 Audit report of preceding annual financial statements

The audit report of the Company's financial statements for the financial year ended 31 December 2018 was not subjected to any audit qualification.

## A3 Comments about seasonal or cyclical factors

The Company's financial performance is affected by market driven refinery margins and hydrocarbon prices, which are influenced by international supply and demand for crude and petroleum products and geopolitical factors.

## A4 Significant events and transactions

The Company partially reversed an impairment loss on its property, plant and equipment which was originally recognised in financial year ended 2014. The reversal was made following an annual assessment of the assets' recoverable amount. The recoverable amount, which was based on the value in use of the refinery's assets, was determined using average projected margins from external sources, adjusted for operating and committed capital expenditure. The key assumptions used in the annual assessment are described in A5 below.

Except for the above, there are no other significant events or transactions affecting assets, liabilities, equity, net income, or cash flows for the financial period that were unusual due to their nature, size, or incidence.

## A5 Critical accounting estimates and judgments

In addition to the explanation in A4 above, other key estimates that were used in determining the refinery assets' value in use are described below:

- Projected net cash flows cover a period of 20 years, with a residual value at the end of the 20-year period;
- Refinery production levels are estimated based on existing production capacity, adjusted for planned turnaround activities, margin uplift initiatives and crude optimisation;
- Refining margin per barrel within range of USD3.78 per barrel and USD5.70 per barrel; and
- Pre-tax discount rate of 12.3% based on the weighted average cost of capital applicable to the Company.

**Part A – Explanatory Notes Pursuant to MFRS 134 Interim Financial Reporting**
*(continued)*

## A6 Debt and equity securities

There were no issuances of new debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares in the current quarter and financial year ended 31 December 2019.

## A7 Segmental reporting

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.

## A8 Revenue

| | Quarter ended | | Financial year ended | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **31.12.2019** | 31.12.2018 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Sale of oil products | | | | |
| - Refined | **3,145,254** | 2,513,013 | **12,634,960** | 11,239,519 |
| - Crude oil | **645** | 351 | **2,357** | 1,718 |
| | **3,145,899** | 2,513,364 | **12,637,317** | 11,241,237 |

## A9 Earnings per share

| | Quarter ended | | Financial year ended | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **31.12.2019** | 31.12.2018 |
| **(a) Basic earnings per share** | | | | |
| Net profit/(loss) for the period/year (RM'000) | **21,567** | (72) | **34,984** | 30,842 |
| Weighted average number of ordinary shares in issue (`000) | **300,000** | 300,000 | **300,000** | 300,000 |
| Basic earnings per share (sen) | **7** | 0 | **12** | 10 |
| **(b) Diluted earnings per share (sen)** | **N/A** | N/A | **N/A** | N/A |

## A10 Profit/(loss) before taxation

| | Quarter ended | | Financial year ended | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **31.12.2019** | 31.12.2018 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| *Profit/(loss) before taxation is arrived at after (crediting)/ charging:* | | | | |
| Interest income | **(641)** | (3,689) | **(2,262)** | (16,623) |
| Operating and transport fees | **-** | - | **-** | (24) |
| Gain on modification of lease contracts | **-** | - | **(533)** | - |
| Gain on disposal of property, plant and equipment | **-** | - | **(33)** | - |
| Cost recovery from intellectual property buy-out | **-** | (1,129) | **-** | (1,129) |
| Amortisation of term loan commitment fees | **46** | 446 | **166** | 15,142 |
| Interest expense | **(6,635)** | 7,281 | **22,350** | 39,169 |
| Depreciation of property, plant and equipment | **26,752** | 40,234 | **121,849** | 169,484 |
| Depreciation of right-of-use assets | **1,897** | - | **8,131** | - |
| Amortisation of intangible assets | **2,064** | 4,309 | **14,405** | 16,634 |
| Amortisation of prepaid lease payments | **1** | 4 | **18** | 16 |
| Allowance/(reversal of allowance) for doubtful debt | **-** | 2 | **-** | (48) |
| Allowance for inventories | **369** | - | **369** | - |
| Write-off of property, plant and equipment | **1,644** | - | **2,879** | - |
| Foreign exchange (gain)/ loss-realised | **(24,127)** | 3,055 | **(7,070)** | 76,972 |
| Foreign exchange loss-unrealised | **5,988** | 3,855 | **23,274** | 13,384 |
| Fair value loss/(gain) on derivative financial instruments | **31,618** | (81,057) | **(53,303)** | (82,001) |

Save as disclosed above and in the Condensed Statement of Comprehensive Income, the other items required by Bursa Malaysia Securities Berhad Main Market Listing Requirements, Chapter 9, Appendix 9B are not applicable to the Company.

## A11 Taxation

Details of the Company's taxation are as follows:

| | Quarter ended | | Financial year ended | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **31.12.2019** | 31.12.2018 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Malaysian Tax | | | | |
| Tax expense/(income) | | | | |
| - Current tax | **279** | (1,634) | **663** | 1,583 |
| - Deferred tax | **73,780** | (43,713) | **110,973** | (56,871) |
| | **74,059** | (45,347) | **111,636** | (55,288) |

The effective tax rate of the Company varies from the statutory tax rate due to the following:

| | Quarter ended | | Financial year ended | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **31.12.2019** | 31.12.2018 |
| | **%** | % | **%** | % |
| Applicable tax rate | **24** | (24) | **24** | (24) |
| Tax effects in respect of: | | | | |
| - Expenses not deductible for tax purposes | **1** | - | **5** | 56 |
| - Effects arising due to difference between functional and tax reporting currency | **24** | (76) | **25** | (118) |
| - Income not subject to tax | **(16)** | - | **(2)** | (10) |
| - Overprovision in prior years arising from difference in tax treatment on functional currency change | **-** | - | **-** | (136) |
| - Deferred tax asset not recognised on unutilised tax losses | **47** | - | **31** | - |
| - (Over)/under accrual in prior year | **(3)** | - | **(7)** | 6 |
| | **77** | (100) | **76** | (226) |

## A12 Dividends

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

On 17 April 2018, the Company paid a single-tier interim dividend of RM0.02 per share, amounting to RM6,000,000, in respect of financial year ended 31 December 2017.

## A13 Changes in the composition of the Company

There were no changes in the composition of the Company in the current quarter and financial year ended 31 December 2019.

## A14 Changes in contingent assets/liabilities

There were no significant changes in contingent liabilities or assets since the last audited annual financial statements as at 31 December 2018.

## A15 Corporate proposal

There were no corporate proposals announced and not completed as at 31 December 2019.

## A16 Material litigation

There were no material litigations involving the Company since 31 December 2018.

## A17 Commodity prices and foreign currency exchange exposures

The Company's margins and financial performance are exposed to the risk of crude and refined product price fluctuations, driven by geopolitical forces and global economic changes. The Company aims to match the average price of its crude oil intake to the planned production of refined oil products in order to mitigate the risks of margin erosion to an acceptable level. The Company may enter into futures, swaps and option derivatives to mitigate margin risks, but only whilst achieving an adequate balance between paper and physical positions.

The Company finances its operations using a mixture of internally generated profits and borrowings. The Company's interest rate risk arises from its borrowings. The Company may enter into swaps in managing this exposure.

The Company is also exposed to foreign currency exchange risks as a result of transactions entered into currencies other than its functional currency. The Company may enter into foreign currency hedge transactions to manage this exposure.

The Company's financial risk management objectives and policies remain similar to that disclosed in the audited financial statements for the financial year ended 31 December 2018.

Derivatives classified within current assets and current liabilities as at 31 December 2019 will mature within the next twelve months. Derivatives classified within non-current assets and liabilities will mature beyond 12 months.

## A18 Fair value disclosures

(a) Financial instruments carried at amortised cost:

The carrying amounts of financial assets and liabilities of the Company approximated their fair values as at 31 December 2019.

(b) Financial instruments carried at fair value:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the financial asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the financial asset or liability that are not based on observable market data (i.e. unobservable inputs).

## A18 Fair value disclosures (continued)

(b) Financial instruments carried at fair value (continued):

Fair value of financial instruments that were outstanding as at the reporting date are detailed below:

| | Contract/ Notional amount USD'000 | Assets RM'000 | (Liabilities) RM'000 |
|---|---|---|---|
| Financial assets/(liabilities) | | | |
| Level 2 | | | |
| 31.12.2019 | | | |
| Forward foreign currency contracts | **79,753** | **-** | **(4,227)** |
| Refining margin and commodity options | **210** | **5,313** | **(287)** |
| Commodity swap contracts | **693,377** | **103,194** | **(111,498)** |
| Refining margin swap contracts | **335,247** | **217,653** | **(20,914)** |
| Interest rate swap contracts | **115,000** | **-** | **(12,759)** |
| 31.12.2018 | | | |
| Forward foreign currency contracts | 100,880 | - | (3,557) |
| Forward priced commodity contracts | 54,706 | 26,209 | - |
| Commodity options | 560 | 3,460 | (2,169) |
| Commodity swap contracts | 59,405 | 22,291 | - |
| Refining margin swap contracts | 385,909 | 236,331 | (2,524) |
| Interest rate swap contracts | 137,500 | - | (6,329) |

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 in the current quarter and financial year ended 31 December 2019. The fair values were obtained from published rates of counterparties.

## A19 Borrowings

Details of the Company's borrowings as at the reporting date are as follows:

| | **As at 31.12.2019 RM'000** | As at 31.12.2018 RM'000 |
|---|---|---|
| Term loans and revolving credits (secured) | **1,381,913** | 1,150,632 |
| Less: Amount repayable within 12 months | **(796,054)** | (555,095) |
| Amount repayable after 12 months | **585,859** | 595,537 |
| | | |
| Currency profile of borrowings: | | |
| - USD | **1,381,913** | 1,150,632 |

Terms and conditions of the term loans and revolving credits are as disclosed in the audited financial statements for the financial year ended 31 December 2018.

## A20 Changes in liabilities arising from financing activities

(a) Detailed below are changes in liabilities arising from borrowings:

| | **RM'000** | RM'000 |
|---|---|---|
| As at | | |
| - 1 January 2019 | **1,150,632** | - |
| - 1 January 2018 | **-** | 1,205,008 |
| Proceeds from borrowings | **4,518,922** | 2,145,825 |
| Repayment of borrowings (includes interest paid) | **(4,320,682)** | (2,280,907) |
| Non-cash changes: | | |
| - Interest accrued | **47,700** | 43,562 |
| - Amortisation of term loan commitment fees | **166** | 15,142 |
| - Foreign exchange difference upon translation to presentation currency | **(14,825)** | 22,002 |
| As at | | |
| - 31 December 2019 | **1,381,913** | - |
| - 31 December 2018 | **-** | 1,150,632 |

(b) Detailed below are changes in liabilities arising from leasing activities:

| | **RM'000** | RM'000 |
|---|---|---|
| As at | | |
| - 1 January 2019, as previously stated | **-** | - |
| Effects of transitioning to MFRS 16 | **36,398** | - |
| As restated | **36,398** | - |
| - 1 January 2018 | **-** | - |
| Repayment of principal portion of lease liabilities | **(9,025)** | - |
| Non-cash changes: | | |
| - New lease liabilities recognised | **11,589** | - |
| - Modification of lease liability | **(9,427)** | - |
| - Interest accrued | **1,545** | - |
| - Foreign exchange difference upon translation to presentation currency | **(323)** | - |
| As at | | |
| - 31 December 2019 | **30,757** | - |
| - 31 December 2018 | **-** | - |

## A21 Cash and cash equivalents

| | As at 31.12.2019 RM'000 | As at 31.12.2018 RM'000 |
|---|---|---|
| Cash and cash equivalents comprise of: | | |
| Bank balances | **1,135,366** | 204,880 |
| Less: Restricted cash | **(98,578)** | (76,847) |
| | **1,036,788** | 128,033 |

Restricted cash comprise of amounts held in a debt service accrual account associated with the term loan facilities.

## A22 Capital commitments

Capital commitments as at 31 December 2019 are as follows:

| | As at 31.12.2019 RM'000 | As at 31.12.2018 RM'000 |
|---|---|---|
| **Property, plant and equipment** | | |
| Approved and contracted for | **291,181** | 622,680 |
| Approved but not contracted for | **185,052** | 420,238 |

## A23 Company's performance

A review of the Company's financial performance in the reporting period is presented in the accompanying Management Commentary in Part B.

## A24 Current year prospects

A commentary on the Company's current year prospects is presented in the accompanying Management Commentary in Part B.

**Part A – Explanatory Notes Pursuant to MFRS 134 Interim Financial Reporting**
*(continued)*

## A25 Related party disclosures

Below are significant related party transactions that are entered into in the normal course of business and have been established under negotiated terms:

| | **Quarter ended** | | **Financial year ended** | |
|---|---|---|---|---|
| | **31.12.2019** | 31.12.2018 | **31.12.2019** | 31.12.2018 |
| | **RM'000** | RM'000 | **RM'000** | RM'000 |
| Transactions with immediate holding company | | | | |
| - Sale of refined products | **114,354** | 42,934 | **273,127** | 43,054 |
| - Purchase of refined products | **(283)** | (22,031) | **(8,459)** | (22,031) |
| - Central management and administrative charges | **502*** | (4,180) | **(6,084)** | (6,464) |
| - Technical advisory support | **351**** | (4,328) | **(7,345)** | (7,812) |
| Transactions with an affiliated company | | | | |
| - Purchase of refined products | **(5,053)** | - | **(5,053)** | - |
| - Central management and administrative charges | **(1,703)** | - | **(3,480)** | - |
| - Technical advisory support | **(6,234)** | - | **(10,767)** | - |

* Included within central management and administrative charges is an over accrual in prior quarter amounting to RM526,000.

** Included within technical advisory support charges is an over accrual in prior quarter amounting to RM360,000.

**HENGYUAN REFINING COMPANY BERHAD**
(3926-U)
(Incorporated in Malaysia)

## Part B: Additional Information Required by Bursa Malaysia Listing Requirements

### B1 Financial review for current quarter and financial year

| | Quarter ended | | | | Financial year ended | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.2019 | 31.12.2018 | Variance | | 31.12.2019 | 31.12.2018 | Variance | |
| | RM'mil | RM'mil | RM'mil | % | RM'mil | RM'mil | RM'mil | % |
| Revenue | **3,146** | 2,513 | **633** | 25 | **12,637** | 11,241 | **1,396** | 12 |
| Gross profit/ (loss) | **140** | (81) | **221** | >100 | **534** | 393 | **141** | 36 |
| Profit after taxation | **22** | - | **22** | >100 | **35** | 31 | **4** | 13 |

The financial performance of the comparative quarter and financial year reflects the production downtime and operating expenditure incurred in delivering the Major Turnaround 2018 (MTA 2018) which lasted approximately 11 weeks. Accordingly, the revenues for the current quarter and financial year are comparably higher as the refinery recorded a sales volume of 10.2 million barrels and 41.9 million barrels respectively. Market quoted product prices averaged approximately USD73 per barrel for both the current quarter and financial year, compared to USD73 per barrel and USD79 per barrel for the respective comparative periods.

Stockholding gains for the quarter and financial year ended 31 December 2019 (including the effects of commodity swaps) were USD1.05 per barrel and USD0.93 per barrel, with further uplift recognised on the effects of margin swaps at USD0.42 per barrel for the quarter and financial year.

The fourth quarter results were severely impacted by the previously announced damage to the Single Buoy Mooring's ("SBM") underwater valve. The Company had to reduce its crude intake by 20% to 50% over a 30-day period.

Lower depreciation and amortisation costs reflect the extended useful life of the refinery assets, based on an assessment carried out in the last financial year. A portion of the borrowing costs incurred during the year on large projects were capitalised in the current quarter.

The Company partially reversed an impairment loss on its property, plant and equipment that was originally recognised in FY2014, following the annual reassessment of its property, plant and equipment's recoverable amount. This exercise took into account the long-term commitment to supply regulatory compliant products in meeting local demand.

The tax effects for the current quarter and financial year ended 31 December 2019 are determined based on Malaysian tax regulations, which require tax to be calculated based on Ringgit Malaysia denomination. Tax charge for the year includes a reversal of deferred tax assets, taking into account a limitation in carrying forward unutilised tax losses beyond seven years.

**Part B: Additional Information Required by Bursa Malaysia Listing Requirements**
*(continued)*

## B2 Financial review for current quarter compared with immediately preceding quarter

| | Quarter ended | | | |
|---|---|---|---|---|
| | **31.12.2019** | 30.09.2019 | **Variance** | |
| | **RM'mil** | RM'mil | **RM'mil** | **%** |
| Revenue | **3,146** | 3,225 | **(79)** | **-2** |
| Gross profit | **140** | 75 | **65** | **87** |
| Profit/(loss) after taxation | **22** | (11) | **33** | **>100** |

Revenue for the current quarter against the preceding quarter remain similar as sales volume and average market quoted product prices remain unchanged. Higher gross profit for the current quarter resulted from margin uplifts on margin swaps and stockholding gains. Net profit for the quarter includes the effects of partial impairment reversal amounting RM125.5 million.

## B3 Current year prospects

Refining margins and crude prices are expected to remain volatile in the near term based on published forward market prices. Operational efficiency, safety performance, product quality, hydrocarbon hedging and financial risk management continue to remain key areas of focus in optimising the Company's performance.

**Part B: Additional Information Required by Bursa Malaysia Listing Requirements**
*(continued)*

## B4 Status of Project Euro 4M Mogas

The Euro 4M Mogas project is expected to be completed in the fourth quarter of 2020.

Effective 1 January 2020, the Company has been producing Euro 4M specification products that meet its supply obligations to its customers. In the event of any additional volumes requested by our customers, the Company may choose to meet these orders with internally produced volumes or by purchasing additional volumes from the open market, depending on the commercial viability at the time.

## B5 Profit forecast

The Company does not issue any profit forecasts.

**BY ORDER OF THE BOARD**
Lim Hooi Mooi (MAICSA 0799764)
Ong Wai Leng (MAICSA 7065544)
Company Secretaries

Kuala Lumpur
27 February 2020