

Company No.

3926	U
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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2015

0018A6/nr

Company No.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT AND STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2015

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

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 2015.

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	<u>351,788</u>

DIVIDENDS

No dividend has been paid or declared since the end of the Company's previous financial year. The Directors do not recommend the payment of any dividend for the financial year ended 31 December 2015.

RESERVES AND PROVISIONS

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

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Datuk Iain John Lo	
Dato' Seri Talaat bin Haji Husain	
Datuk Seri Saw Choo Boon	(resigned on 1 December 2015)
Datuk Zainun Aishah binti Ahmad	
Lau Nai Pek	
Datuk Yau Ah Lan @ Fara Yvonne	
Arnel Lamco Santos	(resigned on 25 February 2016)
Amir Hamzah Bin Abu Bakar	
Michael John Carey	(appointed on 6 February 2015)
Heng Heyok Chiang @ Heng Hock Cheng	(appointed on 1 April 2016)

In accordance with Article 81(9) of the Company's Articles of Association, Mr. Heng Heyok Chiang @ Heng Hock Cheng retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 81(3) of the Company's Articles of Association, Datuk Zainun Aishah binti Ahmad, Datuk Yau Ah Lan @ Fara Yvonne and Mr. Lau Nai Pek, retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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 except for awards of shares under the Performance Share Plan ("PSP") granted by Royal Dutch Shell plc to eligible senior executives including certain Directors of the Company.

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 13 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.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

Long-term incentives

Following the unification of Shell Transport and Trading Company plc and Royal Dutch Petroleum Company (N.V. Koninklijke Nederlandsche Petroleum Maatschappij) in 2005, the share option grants were discontinued and in its place, an amended Long Term Incentive Plan was introduced. The purpose of the changes was to ensure a closer link between the remuneration of Directors and executives and the performance of the Royal Dutch Shell plc relative to its peers.

Long-Term Incentive Plan ("LTIP")

Under the LTIP, performance shares are awarded conditionally once a year as shown below.

TSR Rank	Performance shares received
1 st	2 x award
2 nd	1.5 x award
3 rd	0.8 x award
4 th or 5 th	Nil

Awards will have a face value between zero and two times base award. Awards are subject to performance over a period of at least three years.

The actual number of shares that Directors received in 2015 is based on the TSR performance of Royal Dutch Shell plc over the period from year 2012 to 2014. The face value of the conditional performance share award is the number of shares as referred to in Directors' Long-term Incentive Interest below multiplied by the share price at the time of the award.

DIRECTORS' LONG-TERM INCENTIVE INTEREST

The tables below show the PSP and the share options interest of the Directors who held office at the end of the financial year. Following the unification, the options that were made with respect to N.V. Koninklijke Nederlandsche Petroleum Maatschappij and Shell Transport and Trading Company plc shares, have been converted into Royal Dutch Shell plc share entitlements at the appropriate conversion rates. Other than consequential changes, the terms and conditions applicable to these options have generally not been altered as a result of this conversion.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

DIRECTORS' LONG-TERM INCENTIVE INTEREST (CONTINUED)

Direct interest in shares of Royal Dutch Shell plc

(i) LTIP Awards

	Class of Shares	Awards as at 1 January 2015/since date of appointment	Awards granted in 2015	Awards cancelled /lapsed in 2015	Awards as at 31 December 2015	Awards vested in 2015 *
Datuk Iain John Lo	¹ RDSA	35,075	0	(9,775)	25,300	11,204
Amir Hamzah bin Abu Bakar	¹ RDSA	1,756	2,875	(1,400)	8,825	1,358
Arnel Lamco Santos	¹ RDSA	16,500	0	0	16,500	0
Michael John Carey	¹ RDSA	18,275	9,775	0	28,050	0

* A face value of 97% of the LTIP awards granted in 2012 was vested during the financial year.

(ii) Direct interest in vested shares of **PSP and ***GESPP

	Class of Shares	Balance as at 1 January 2015/ since date of appointment	Shares added to vested share account in 2015	Dividend share	Shares sold/ transferred in 2015	Balance as at 31 December 2015
Datuk Iain John Lo	¹ RDSA	6,199	11,204	811	(2,640)	15,574
Datuk Seri Saw Choo Boon	² RDSB	25	0	0	0	25
Lau Nai Pek	¹ RDSA	5,140	0	0	0	5,140
Amir Hamzah bin Abu Bakar	¹ RDSA	3	1,609	82	0	1,694
Michael John Carey	¹ RDSA	12,973	364	810	0	14,147

** PSP is Performance Share Plan

*** GESPP is the Global Employee Share Purchase Plan available to all employees to subscribe for shares in Royal Dutch Shell plc

According to the register of Directors' shareholdings, none of the other Directors in office at the end of the financial year held any interest in shares in and debentures of the Company or its related corporations.

¹ RDSA - Royal Dutch Shell plc Class A shares

² RDSB - Royal Dutch Shell plc Class B shares

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Company had been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amounts written-off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

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

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liability of any other person; or
- (b) any contingent liability of the Company 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 the note to the financial statement in Note 3; 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.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

IMMEDIATE HOLDING COMPANY

The Directors regard Shell Overseas Holdings Limited, a company incorporated in England and Wales, as the Company's immediate holding company.

ULTIMATE HOLDING COMPANY

The Directors regard Royal Dutch Shell plc, a company incorporated in England and Wales, as the Company's ultimate holding company.

SIGNIFICANT SUBSEQUENT EVENTS

- (a) As announced on 1 February 2016, Shell Overseas Holdings Limited ("SOHL") the major shareholder of the Company had entered into a conditional sale and purchase agreement with Malaysia Hengyuan International Limited ("MHIL") for the acquisition by MHIL of 153,000,000 ordinary shares of RM1.00 each held by SOHL in the Company, representing 51% of the issued and paid up share capital of the Company for a total cash consideration of USD66,300,000, which was announced by the Company on 2 February 2016 ("Proposed Acquisition"). The Proposed Acquisition is expected to complete in 2016 and is conditional upon the fulfilment of several conditions precedent, which include but is not limited to, regulatory approval.


The Board of Directors notes that the Proposed Acquisition will oblige MHIL to extend a mandatory general offer for all the remaining shares in SRC not already held by MHIL.

- (b) On 13 April 2016, The Company entered into supplemental agreement to the existing facility agreement to repay USD60,000,000 by 30 June 2016 and extend the maturity date of remaining term loan of USD180,000,000 from 14 September 2016 to 14 March 2017 as disclosed in Note 15.1.

AUDITORS

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

Signed on behalf of the Board of Directors in accordance with their resolution dated 18 April 2016.



AMIR HAMZAH BIN ABU BAKAR
MANAGING DIRECTOR



DATUK IAIN JOHN LO
CHAIRMAN

Company No.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS
PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

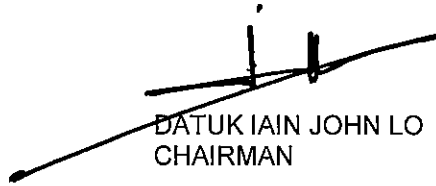
We, Amir Hamzah Bin Abu Bakar and Datuk Iain John Lo, being two of the Directors of Shell Refining Company (Federation of Malaya) Berhad, state that, in the opinion of the Directors, the accompanying financial statements set out on pages 11 to 56 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia so as to give a true and fair view of the state of affairs of the Company as at 31 December 2015 and of the results and cash flows for the financial year ended on that date.

The supplementary information set out in Note 32 on page 56 have been prepared in accordance with the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board of Directors in accordance with their resolution dated 18 April 2016.



AMIR HAMZAH BIN ABU BAKAR
MANAGING DIRECTOR



DATUK IAIN JOHN LO
CHAIRMAN

Company No.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

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

WESTERN AUSTRALIA
OATHS, AFFIDAVITS AND STATUTORY DECLARATIONS ACT 2005
STATUTORY DECLARATION

I, Michael John Carey, of 562 Wellington Street, Perth WA 6000, sincerely declare as follows:

1. I am the Director primarily responsible for the financial management of Shell Refining Company (Federation of Malaya) Berhad.
2. I declare that the financial statements set out on pages 11 to 56 are, in my opinion, correct.

This declaration is true and I know that it is an offence to make a declaration knowing that it is false in a material particular.

This declaration is made under the *Oaths, Affidavits and Statutory Declaration Act 2005 (Western Australia)*.

at Perth
.....
(place)

18th April 2016
.....
(date)

In the presence of:-

[Signature]
.....
(signature of authorised witness)

PER-LIANH WEN
.....
(name and qualification of authorised witness)

Lawyer
.....

by [Signature]
.....
Michael John Carey
Director



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)
(Company No. 3926-U)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Shell Refining Company (Federation of Malaya) Berhad, on pages 11 to 56 which comprise the statement of financial position as at 31 December 2015 of the Company, and the statements of comprehensive income, changes in equity and cash flows of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on Notes 1 to 31.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements so as to give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of the financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD (CONTINUED)
(Incorporated in Malaysia)
(Company No. 3926-U)

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2015 and of its financial performance and 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, 1965 in Malaysia.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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


OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 32 on page 56 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

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


PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants


SUBATHRA A/P GANESAN
(No. 3020/08/16(J))
Chartered Accountant

Kuala Lumpur
18 April 2016

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
Revenue	6	9,079,637	14,262,773
Purchases		(8,265,031)	(14,571,039)
		<u>814,606</u>	<u>(308,266)</u>
Other income	7	21,098	14,440
Manufacturing expenses		(204,846)	(191,576)
Administrative expenses		(58,428)	(53,917)
Depreciation and amortisation		(167,577)	(151,435)
Other operating gains/(losses)		5,035	(3,148)
Finance cost	8	(57,303)	(68,693)
Impairment	9	0	(460,878)
Profit/(loss) before taxation	9	<u>352,585</u>	<u>(1,223,473)</u>
Taxation	10	(797)	34,705
Profit/(loss) for the financial year/ Total comprehensive income/ (loss) for the financial year		<u><u>351,788</u></u>	<u><u>(1,188,768)</u></u>
Earnings/(loss) per RM1 unit of share (sen) - basic	11	<u><u>117</u></u>	<u><u>(396)</u></u>

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

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,029,335	1,104,821
Prepaid lease payments	14	1,843	1,864
Derivative financial assets	15	0	118,565
		<u>1,031,178</u>	<u>1,225,250</u>
CURRENT ASSETS			
Inventories	16	695,704	801,183
Trade receivables	17	24,513	26,971
Other receivables and prepayments	18	30,264	1,404
Tax recoverable		3,803	4,376
Amounts receivable from related companies	19		
- Trade		672,797	737,976
- Non-trade		11,246	5,193
Derivative financial assets	15	305,188	0
Deposit with licensed banks	20	171,820	0
Bank balances	20	3,703	8,737
		<u>1,919,038</u>	<u>1,585,840</u>
TOTAL ASSETS		<u><u>2,950,216</u></u>	<u><u>2,811,090</u></u>
CAPITAL AND RESERVES			
ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	21	300,000	300,000
PSP from RDS*	22	1,924	1,306
Retained earnings		375,166	23,378
		<u>677,090</u>	<u>324,684</u>
CURRENT LIABILITIES			
Trade and other payables	23	87,027	75,558
Amounts payable to related companies	19		
- Trade		619,530	634,937
- Non-trade		85,515	17,636
Borrowings	15	1,031,054	919,115
		<u>1,823,126</u>	<u>1,647,246</u>
NET CURRENT ASSETS/(LIABILITIES)		<u><u>95,912</u></u>	<u><u>(61,406)</u></u>

*Performance share plan from Royal Dutch Shell Plc

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015 (CONTINUED)

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
NON-CURRENT LIABILITY			
Borrowing	15	450,000	839,160
		<u>450,000</u>	<u>839,160</u>
TOTAL EQUITY AND LIABILITIES		<u>2,950,216</u>	<u>2,811,090</u>

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

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	Note	Issued and fully paid ordinary		Non- distributable PSP reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
		Number of shares '000	Nominal value RM'000			
At 1 January 2015		300,000	300,000	1,306	23,378	324,684
Total comprehensive income for the financial year		0	0	0	351,788	351,788
PSP from RDS	22					
- re-charge by parent		0	0	(1,729)	0	(1,729)
- charge during the year		0	0	2,347	0	2,347
At 31 December 2015		<u>300,000</u>	<u>300,000</u>	<u>1,924</u>	<u>375,166</u>	<u>677,090</u>
At 1 January 2014		300,000	300,000	1,237	1,212,146	1,513,383
Total comprehensive loss for the financial year		0	0	0	(1,188,768)	(1,188,768)
PSP from RDS	22					
- re-charge by parent		0	0	(1,144)	0	(1,144)
- charge during the year		0	0	1,213	0	1,213
At 31 December 2014		<u>300,000</u>	<u>300,000</u>	<u>1,306</u>	<u>23,378</u>	<u>324,684</u>

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

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before taxation		352,585	(1,223,473)
Adjustments for:			
Property, plant and equipment			
- depreciation		167,577	151,435
- write-off		948	134
- impairment		0	460,878
- gain on disposal		(26)	0
Interest expense		51,022	58,755
Interest income		(2,497)	(92)
Net foreign exchange loss - unrealised		188,517	50,652
Fair value gain on derivative financial instruments		(186,623)	(43,236)
(Write back of)/allowance for inventories write-down to net realisable value		(76,260)	80,167
Allowance for slow moving inventories		437	512
Allowance for/(reversal of) doubtful debts		343	(891)
Amortisation of prepaid lease payments		21	21
Bad debts written off		110	0
PSP from RDS		2,347	1,213
		<hr/>	<hr/>
		498,501	(463,925)
Changes in working capital:			
Inventories		181,302	504,964
Trade and other receivables		(26,503)	41,574
Trade and other payables		16,154	(8,921)
Related companies		111,771	41,760
		<hr/>	<hr/>
Cash generated from operations		781,225	115,452
Interest received		2,497	92
Tax paid		(224)	0
		<hr/>	<hr/>
Net cash flows generated from operating activities		783,498	115,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment			
- additions		(98,165)	(54,827)
- proceeds from disposal		26	0
		<hr/>	<hr/>
Net cash flows used in investing activities		(98,139)	(54,827)

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

	<u>Note</u>	<u>2015</u> RM'000	<u>2014</u> RM'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(916,740)	(35,730)
Proceeds from borrowings		450,000	0
Interest paid		(52,783)	(57,423)
Net cash flows used in financing activities		<u>(519,523)</u>	<u>(93,153)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		165,836	(32,436)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL YEAR		8,737	41,009
EFFECTS OF EXCHANGE RATE CHANGES		<u>950</u>	<u>164</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR	20	<u><u>175,523</u></u>	<u><u>8,737</u></u>

During the financial year ended 31 December 2015, the Company acquired property, plant and equipment with an aggregate cost of RM93,038,510 (2014: RM49,445,737). During the year, cash payments of RM 98,164,510 (2014: RM54,826,737) were made for acquisitions of property, plant and equipment. The balance unpaid at the financial year end of RM8,157,000 (2014: RM13,283,000) is included in accruals for capital expenditure under Note 23.

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

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

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 Directors regard Royal Dutch Shell plc, a company incorporated in England and Wales, as the Company's ultimate holding company.

The Directors regard Shell Overseas Holdings Limited, a company incorporated in England and Wales, as the Company's immediate holding company.

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 address of the registered office of the Company is:

Level 8, Symphony House
Pusat Dagangan Dana 1
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan

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

Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

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

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ. As at 31 December 2015, the areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 BASIS OF PREPARATION (CONTINUED)

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

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Company's financial year beginning on or after 1 January 2015 are as follows:

- Annual Improvements to MFRSs 2010 – 2012 Cycle
- Annual Improvements to MFRSs 2011 – 2013 Cycle

There is no significant impact on the financial results and position of the Company upon adoption of the above new standards, amendments to published standards and interpretation.

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

(i) Financial year beginning on/after 1 January 2016

- Amendments to MFRS 101 'Presentation of financial statements – Disclosure initiatives'
- Amendments to MFRS 116 'Property, plant and equipment'
- Annual improvements to MFRS 2012-2014 cycle

The adoption of the above applicable standards and amendments/improvements to published standards did not have a significant financial impact on the company and did not result in substantial change in company's accounting policies and procedures.

(ii) Financial year beginning on/after 1 January 2018

- MFRS 15 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces MFRS 118 'Revenue' and MFRS 111 'Construction contracts' and related interpretations.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (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 applicable to the Company but not yet effective (continued)

(ii) Financial year beginning on/after 1 January 2018 (continued)

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

There is now a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

The adoption of the above will not result in any significant change to the Company's results and financial position. The Company is in the process of assessing the full impact of the adoption of MFRS 15 and MFRS 9 on the financial statements of the Company in the year of initial application.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2.2 REVENUE RECOGNITION

(a) Revenue

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

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

(b) Interest income

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

(c) Other income

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

2.3 PURCHASES

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

2.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Cost also includes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.13 on borrowing costs).

All other property, plant and equipment are stated at historical costs less accumulated depreciation and accumulated impairment losses.

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 to their residual values, over their estimated useful lives at the following annual rates:

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Plant, machinery and equipment comprise components of the refinery which are subject to different refurbishment cycle.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

At the end of reporting period, the Company assesses whether there is any indication of impairment. If such indicators exist, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Refer accounting policy Note 2.6 on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

2.5 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 their estimated useful lives, typically the period until the next major scheduled maintenance. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

The impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset, in which case it is taken to revaluation surplus reserve.

2.7 LEASES

(a) Finance leases

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

Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges are included in borrowings.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 LEASES (CONTINUED)

(a) Finance leases (continued)

The interest element of the finance charge 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 property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term. Property, plant and equipment acquired under finance lease are depreciated over the shorter of the estimated useful life of the asset and the lease term.

(b) Operating leases

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

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

2.8 INVENTORIES

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

Cost comprises direct purchase costs (including transportation, insurance and premium) and is determined using the first in, first out method. The cost of finished products includes 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 the cost of completion and selling expenses.

2.9 TRADE RECEIVABLES

Trade receivables are amounts due from customers for oil products sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment.

2.10 CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash, bank balances, deposits with licensed banks, other short-term and highly liquid investments with original maturities of three months or less.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 SHARE CAPITAL

(a) Classification

Ordinary shares are classified as equity.

(b) Dividends to shareholders of the Company

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

2.12 TRADE PAYABLES

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 BORROWINGS AND BORROWING COSTS

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

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 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 single best estimate of the most likely outcome.

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

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

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 EMPLOYEE BENEFITS

(a) Short-term employee benefits

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

Wages, salaries, paid annual leave, sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

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NOTES TO THE FINANCIAL STATEMENTS
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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 EMPLOYEE BENEFITS (CONTINUED)

(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 profit or loss when incurred. Once the contributions have been paid, the Company has no further payment obligations.

(i) 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.

2.16 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.

2.17 PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 GOVERNMENT GRANTS

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Company will comply with all attached conditions.

Government grants relating to costs are recognised in profit or loss over the period necessary to match the related costs for which the grants are intended to compensate.

Government grants relating to the purchase of assets are deducted in arriving at the carrying amount of the assets. The grants are recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

2.19 FOREIGN CURRENCIES

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

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss within 'finance cost'. Foreign exchange gains and losses that are relating to acquisition of inventories are presented in profit and loss within 'purchases'. All other foreign exchange gains and losses are under 'other expenses'.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2.20 FINANCIAL ASSETS

(a) Classification

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

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

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

(ii) Loans and receivables

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

(b) Recognition and initial measurement

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

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

(c) Subsequent measurement – gains and losses

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

Changes in the fair values of financial assets at fair value through profit or loss, including the effects of currency translation, interest and dividend income are recognised in profit or loss in the period in which the changes arise.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 FINANCIAL ASSETS (CONTINUED)

(d) Subsequent measurement – impairment of financial assets

Assets carried at amortised cost

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

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

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

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

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

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

(e) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.22 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2.20.

2.23 SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.24 SHARE BASED PAYMENTS

Royal Dutch Shell plc ("RDS"), the Company's ultimate holding company operates a number of equity settled, share-based compensation plan for the employees of RDS and its subsidiaries.

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

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to vest. At the end of reporting date, the ultimate holding company revises its estimates of the number of share options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity as an employees' share option scheme reserve.

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

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 Directors believe that there are no other critical accounting estimates and judgments being formed for the current financial year.

(i) Property, plant and equipment

The Company reviews the recoverable amount of its property plant and equipment whenever events or changes in circumstances indicate that the impairment loss recognised in prior year may no longer exist or may have decreased based on its accounting policy stated in Note 2.6. The Company's results of 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.

During the year, with the significant movement in refining margins, a review of recoverable amount of its property plant and equipment was performed. The positive refining margin in current year remains to be uncertain going forward due to market stabilization and dampened global economic environment. Accordingly the Company did not perform any reversals to the impairment as volatility in the market continues and of future projections.

(ii) Change in accounting estimates over estimated useful life of refinery

In 2014, the Board has reviewed the remaining useful lives of the refinery's assets to be at the end of year 2025 as a result of a review performed over the future margin outlook of the Company. No further changes made in current year.

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks; market risk (including foreign currency exchange risk and interest rate risk), credit risk, liquidity and cash flow risk, capital risk and refining margin 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 the exposure to foreign currency risks in receivables and payables. In addition, financial instruments such as trade receivables, trade payables and long-term borrowings arise directly from the Company's operations. Straightforward derivative financial instruments are utilised by the Company to manage the exposure to foreign currency and interest rate risks. The Company does not enter into derivative financial instruments for trading purposes.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk

(i) Foreign currency exchange risk

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

The Company is exposed to currency risk as a result of the foreign currency transactions entered into in currencies other than its functional currency. Financial instruments affected by foreign currency exchange risk include intercompany balances, receivables and payables, deposit and bank balances, bank borrowings and derivative financial instruments.

The Company may enter into foreign exchange 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.

In 2011, the Company obtained a 5-year USD term loan facility to finance a capital expenditure project as disclosed in Note 15 to the financial statements. The loan has been fully drawn down in 2012. At the same time, the Company entered into cross currency interest rate swaps to hedge its foreign currency borrowings in order to minimise its exposures to movements in foreign currency positions.

The following analysis illustrates the sensitivity to changes in market variables, being the USD to Ringgit Malaysia exchange rate, on the financial instruments:

	Impact on profit/(loss) after tax, equity and net assets	
	<u>2015</u>	<u>2014</u>
	RM'000	RM'000
10 percent increase in USD	(92,487)	(109,409)
10 percent decrease in USD	92,487	109,409
	<u> </u>	<u> </u>

The method used for deriving sensitivity information and significant variables did not change from previous year.

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SHELL REFINING COMPANY (FEDERATION OF MALAYA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS
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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(ii) Interest rate risk

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

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

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

	Impact on profit/(loss) after tax, equity and net assets	
	<u>2015</u>	<u>2014</u>
	RM'000	RM'000
1% (100 basis points) increase in interest rate	(11,108)	(13,187)
1% (100 basis points) decrease in interest rate	<u>11,108</u>	<u>13,187</u>

The method used for deriving sensitivity information and significant variables did not change from previous year.

(b) Credit risk

Credit risk arises from cash and cash equivalents, as well as credit exposures to third party receivables and related companies, including outstanding receivables. The Company seeks to invest cash assets safely and profitably. Deposits are placed only with financial institutions with strong long-term credit ratings based on independent rating agencies.

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 approve 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.

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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (continued)

The credit quality of financial assets that are neither past due nor impaired as at the end of reporting date can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>Derivative financial assets</u>		
Counterparties with external credit rating		
-AAA	305,188	118,565
	<u> </u>	<u> </u>
<u>Trade receivables</u>		
Counterparties without external credit rating		
- Group B	15,060	24,723
	<u> </u>	<u> </u>
Total unimpaired trade receivables	15,060	24,723
	<u> </u>	<u> </u>
<u>Cash at bank</u>		
Counterparties with external credit rating		
-AAA	175,523	8,737
	<u> </u>	<u> </u>
<u>Amounts receivable from related companies</u>		
Counterparties without external credit rating		
- Group B	682,937	740,825
	<u> </u>	<u> </u>

- Group A – new customers (less than 12 months)
- Group B – existing customer including related parties (more than 12 months) with no defaults in the past

None of the financial assets that are fully performing have been renegotiated in the current financial year.

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4 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (continued)

The Company generally has no significant concentration of credit risk other than as set out below:

- (i) 76% (2014: 90%) of the Company's total trade receivables at the reporting date were receivable from major customers within the oil & gas industry in Malaysia. The Directors are of the view that such credit risk is minimal in view of the strength of the customers' financial position. Subsequent to year end, 93% of these receivables were collected as at the reporting date.
- (ii) 94% (2014: 91%) of the Company's total intercompany receivables at the reporting date was receivable from Shell Malaysia Trading Sendirian Berhad and Shell Timur Sendirian Berhad. The Directors are of the view that the exposure to credit risk is minimal in view of the stability of the fellow subsidiaries' financial position. Sales to the above mentioned related companies constitute 90% (2014: 89%) of the Company's revenue.
- (iii) majority of the Company's deposits, bank and cash balances were placed with major financial institutions in Malaysia which are "AAA" rated. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

(c) Liquidity and cash flow risks

The Company ensures that cash is available to meet working capital and other financing requirements, 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. In addition, the Company maintains an adequate amount of short term credit facilities and committed funding.

As at 31 December 2015, there are outstanding borrowings amounted to USD240 million, equivalent to RM1,031 million (2014: RM919 million) which becomes due within the next 12 months on 14 Sept 2016, as disclosed in Note 15.1.

The Company plans to repay part of these borrowings, amounting to USD60 million, by 30 June 2016 through cash flow from operations. As disclosed in Note 30, the maturity date of the remaining term loan amounting to USD180 million has been extended to 14 March 2017. The loan agreement requires repayment of the outstanding balance in the event that the existing shareholding of SOHL falls below 51% of the issued and paid up share capital of the Company. As disclosed in Note 30, SOHL is in the process of divesting its equity interest in the Company. In view that the completion of the said divestment is anticipated to occur before year end, the Directors intend to put a funding plan in place to refinance the said outstanding borrowings.

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NOTES TO THE FINANCIAL STATEMENTS
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4 **FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

(c) **Liquidity and cash flow risks (continued)**

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

	Within <u>1 year</u> RM'000	Between 1 to <u>3 years</u> RM'000	<u>Total</u> RM'000
<u>At 31 December 2015</u>			
Trade and other payables excluding statutory liabilities	86,070	0	86,070
Amounts due to related companies	705,045	0	705,045
Term loan	1,061,016	459,963	1,520,979
Cross currency interest rate swaps (outflow)	(731,637)	0	(731,637)
Cross currency interest rate swaps inflow	1,036,825	0	1,036,825
	<u> </u>	<u> </u>	<u> </u>
<u>At 31 December 2014</u>			
Trade and other payables excluding statutory liabilities	73,668	0	73,668
Amounts due to related companies	652,573	0	652,573
Short term borrowings	469,115	0	469,115
Term loan	467,773	845,495	1,313,268
Cross currency interest rate swaps (outflow)	(23,295)	(717,799)	(741,094)
Cross currency interest rate swaps inflow	9,744	851,398	861,142
	<u> </u>	<u> </u>	<u> </u>

(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 the gearing ratio. This ratio is calculated as net debt (total borrowings) divided by total capital. The capital structure of the Company consists of borrowings and total equity:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Net debt/total borrowings	1,481,054	1,758,275
Total equity	677,090	324,684
	<u> </u>	<u> </u>
Total capital	2,158,144	2,082,959
	<u> </u>	<u> </u>
Gearing ratio	69%	84%
	<u> </u>	<u> </u>

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5 FAIR VALUE MEASUREMENTS

(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 2015.

(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 asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

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

The Company's policy is to recognise transfer into and transfers out of fair value hierarchy as of the date of the event or changes in circumstances that caused the transfer.

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

	<u>Level 1</u> RM'000	<u>Level 2</u> RM'000	<u>Level 3</u> RM'000	<u>Total</u> RM'000
<u>At 31 December 2015</u>				
Derivatives - Cross currency interest rate swaps	<u>0</u>	<u>305,188</u>	<u>0</u>	<u>305,188</u>
<u>At 31 December 2014</u>				
Derivatives - Cross currency interest rate swaps	<u>0</u>	<u>118,565</u>	<u>0</u>	<u>118,565</u>

The valuation technique used to derive the Level 2 fair value is as disclosed in Note 15.2. During the financial year, there were no transfers between Level 1 & Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

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6 REVENUE

	<u>2015</u> RM'000	<u>2014</u> RM'000
Sale of oil products:		
- refined	9,074,869	14,259,287
- crude oil	4,768	3,486
	<u>9,079,637</u>	<u>14,262,773</u>

7 OTHER INCOME

	<u>2015</u> RM'000	<u>2014</u> RM'000
Operating and transport fees	18,601	14,348
Interest income	2,497	92
	<u>21,098</u>	<u>14,440</u>

8 FINANCE COST

	<u>2015</u> RM'000	<u>2014</u> RM'000
Interest expense:		
- term loan	(29,754)	(24,930)
- short-term borrowings	(9,491)	(19,513)
- cross-currency interest rate swap ('CCIRS')	(11,777)	(14,312)
Total interest expense	<u>(51,022)</u>	<u>(58,755)</u>
Foreign exchange loss on term loan:		
- unrealised	(191,280)	(53,040)
Fair value gain on derivative financial instruments	186,623	43,236
Others	(1,624)	(134)
	<u>(57,303)</u>	<u>(68,693)</u>

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9 PROFIT/(LOSS) BEFORE TAXATION

	<u>2015</u>	<u>2014</u>
	RM'000	RM'000
The profit/(loss) before taxation (exclude Notes 7 to 8) is arrived at after charging/(crediting):		
Auditors' remuneration:		
- statutory audit fees	224	308
- audit-related fees	218	18
Cost of inventories	7,917,286	14,158,807
Staff cost:		
- salaries, bonus and allowances	60,385	52,421
- defined contribution plan	9,586	8,498
- other employee benefits	5,599	6,186
- share based payments	2,347	1,213
(Write back of)/ allowance for inventories write-down to net realisable value(included in purchases)	(76,260)	80,167
Allowance for slow moving inventories	437	512
Foreign exchange losses/(gains)		
- realised	62,575	17,026
- unrealised	(1,813)	(2,224)
Depreciation	167,577	151,435
Amortisation of prepaid lease payments	21	21
Impairment of property, plant and equipment	0	460,878
Included in other expenses:		
Gain on disposal	(26)	0
Bad debts written off	110	0
Write off of property, plant and equipment	948	134
Allowance for/(reversal of) doubtful debts	343	(891)
	<u> </u>	<u> </u>

10 TAXATION

	<u>2015</u>	<u>2014</u>
	RM'000	RM'000
Current tax		
- current financial year	(797)	0
Deferred taxation (Note 24)		
- origination and reversal of temporary differences (Note 24)	0	34,705
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

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10 TAXATION (CONTINUED)

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

	<u>2015</u> %	<u>2014</u> %
Applicable tax rate	25	25
Tax effects in respect of:		
- expenses not deductible for tax purposes	1	(1)
- tax losses and deductible temporary differences for which no deferred tax asset was recognised	0	(21)
- utilisation of previous year's unrecognised deferred tax assets	(26)	0
Effective tax rate	<u>0</u>	<u>3</u>

11 EARNINGS/(LOSS) PER UNIT OF SHARE

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

	<u>2015</u>	<u>2014</u>
Profit/(loss) for the financial year (RM'000)	351,788	(1,188,768)
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic earnings/(loss) per RM1 unit of share (sen)	<u>117</u>	<u>(396)</u>

12 DIRECTORS' REMUNERATION

	<u>2015</u> RM'000	<u>2014</u> RM'000
Fees	441	465
Salaries, bonus and allowances	1,002	1,009
Defined contribution plan	138	136
Share based payment	52	291
	<u>1,633</u>	<u>1,901</u>

The estimated monetary value of benefits provided to Directors during the year by way of usage of the Company's assets and the provision of accommodation and other benefits amounted to RM NIL (2014: RM3,125).

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13 PROPERTY, PLANT AND EQUIPMENT

2015	Freehold land RM'000	Land improvements RM'000	Buildings RM'000	Plant, machinery, equipment and motor vehicles RM'000	Work-in- progress RM'000	Total RM'000
<u>Cost or deemed cost</u>						
At 1 January	50,598	15,654	109,242	3,336,023	66,576	3,578,093
Additions	0	0	0	0	93,039	93,039
Disposals	0	0	0	(263)	0	(263)
Write-off	0	0	0	(55,446)	0	(55,446)
Capitalisation	0	0	0	150,670	(150,670)	0
At 31 December	50,598	15,654	109,242	3,430,984	8,945	3,615,423
<u>Accumulated depreciation</u>						
At 1 January	0	13,496	56,698	1,942,200	0	2,012,394
Charge for the financial year	0	338	2,475	164,764	0	167,577
Disposals	0	0	0	(263)	0	(263)
Write-off	0	0	0	(54,498)	0	(54,498)
At 31 December	0	13,834	59,173	2,052,203	0	2,125,210
<u>Accumulated impairment losses</u>						
At 1 January/ At 31 December	0	0	0	460,878	0	460,878
<u>Net book value</u>						
At 31 December	50,598	1,820	50,069	917,903	8,945	1,029,335

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13 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

<u>2014</u>	<u>Freehold land RM'000</u>	<u>Land improvements RM'000</u>	<u>Buildings RM'000</u>	<u>Plant, machinery, equipment and motor vehicles RM'000</u>	<u>Work-in- progress RM'000</u>	<u>Total RM'000</u>
<u>Cost or deemed cost</u>						
At 1 January	50,598	15,654	109,242	3,300,642	55,939	3,532,075
Additions	0	0	0	0	49,446	49,446
Write-off	0	0	0	(3,428)	0	(3,428)
Capitalisation	0	0	0	38,809	(38,809)	0
At 31 December	<u>50,598</u>	<u>15,654</u>	<u>109,242</u>	<u>3,336,023</u>	<u>66,576</u>	<u>3,578,093</u>
<u>Accumulated depreciation</u>						
At 1 January	0	13,157	54,211	1,796,885	0	1,864,253
Charge for the financial year	0	339	2,487	148,609	0	151,435
Write-off	0	0	0	(3,294)	0	(3,294)
At 31 December	<u>0</u>	<u>13,496</u>	<u>56,698</u>	<u>1,942,200</u>	<u>0</u>	<u>2,012,394</u>
<u>Accumulated impairment losses</u>						
At 1 January	0	0	0	0	0	0
Charge for the financial year	0	0	0	460,878	0	460,878
At 31 December	<u>0</u>	<u>0</u>	<u>0</u>	<u>460,878</u>	<u>0</u>	<u>460,878</u>
<u>Net book value</u>						
At 31 December	<u>50,598</u>	<u>2,158</u>	<u>52,544</u>	<u>932,945</u>	<u>66,576</u>	<u>1,104,821</u>

14 **PREPAID LEASE PAYMENTS**

	<u>2015 RM'000</u>	<u>2014 RM'000</u>
As at 1 January	1,864	1,885
Amortisation of prepaid lease payments	(21)	(21)
As at 31 December	<u>1,843</u>	<u>1,864</u>

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15 **BORROWINGS/DERIVATIVE FINANCIAL ASSETS**

15.1 **Borrowings**

	2015 RM'000	2014 RM'000
Term loan (unsecured):		
- current (less than 1 year)	1,031,054	452,375
- non-current (between 1 to 3 years)	450,000	839,160
	<u>1,481,054</u>	<u>1,291,535</u>
Short term borrowings:		
- current (less than 1 year)	<u>0</u>	<u>466,740</u>

As at 31 December 2015, the Company has in place revolving credit facilities amounting to RM540 million with local banks for working capital purposes. This revolving credit facilities is unutilised as at year end (2014: RM73.26 million). The facilities carry interest rates at a range of COF+0.25% (Cost of Funds) to KLIBOR+0.3% (Kuala Lumpur Interbank Offer Rate).

On 7 December 2015, the Company obtained a new 18 months RM450 million term loan with an interest rate of KLIBOR + 0.6% to refinance a term loan that was repaid on 28 December 2015. Interest is payable over six quarterly payments with a bullet repayment of the loan principal payable on 7 June 2017. The loan agreement requires repayment of the outstanding balance in the event that the existing shareholding of SOHL falls below 51% of the issued and paid up share capital of the Company. As disclosed in Note 30, SOHL is in the process of divesting its equity interest in the Company. The loan repaid on 28 December 2015 carried an interest rate of KLIBOR + 0.3% over twenty two quarterly payments from 15 June 2010.

In 2011, the Company obtained a USD240 million 5-year term loan facility primarily to finance a capital expenditure project. The term loan carries interest based on LIBOR+0.75% (London Interbank Offered Rate). The loan will be maturing on 14 September 2016. The interest is payable over twenty quarterly payments and a bullet repayment of the entire principal payable on 14 September 2016. Subsequent to the financial year end, the Company plans to repay part of these borrowings, amounting to USD60 million, by 30 June 2016 through cash flow from operations. As disclosed in Note 30, the maturity date of the remaining term loan amounting to USD180 million has been extended to 14 March 2017. The loan agreement requires repayment of the outstanding balance in the event that the existing shareholding of SOHL falls below 51% of the issued and paid up share capital of the Company. As disclosed in Note 30, SOHL is in the process of divesting its equity interest in the Company. In view that the completion of the said divestment is anticipated to occur before year end, the Directors intend to put a funding plan in place to refinance the said outstanding borrowings.

The fair value of the borrowing approximates the carrying value. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.44% on the RM450 million loan and 0.99% on non-current USD240 million loan per annum (2014: 3.74%; 0.94%).

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NOTES TO THE FINANCIAL STATEMENTS
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15 BORROWINGS/DERIVATIVE FINANCIAL ASSETS (CONTINUED)

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Derivative financial assets	<u>305,188</u>	<u>118,565</u>

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

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

¹ KLIBOR - Kuala Lumpur Inter Bank Offer rate

² LIBOR - London Inter Bank Offer rate

The effective interest rates of the Company's term loans at the end of the reporting period ranged from 1.36% to 4.4% (2014: 1.01% to 4.16%) per annum. After executing the swap, the Company's effective interest rate at the end of the reporting period ranged from 3.16% to 3.28% per annum (2014: 3.18% to 3.30%).

<u>Financial instruments</u>	<u>Functional currency/ currency exposure</u>	<u>Applicable interest rate</u>	<u>Total carrying amount</u> RM'000	<u>Effective interest rate at end of reporting date</u> %
<u>As at 31 December 2015</u>				
Term loan	RM/RM	¹ KLIBOR + 0.60%	450,000	4.44
	RM/USD	² LIBOR + 0.75%	1,031,054	1.36
CCIRS	RM/USD	¹ KLIBOR - 0.56%	152,607	3.28
		¹ KLIBOR - 0.62%	76,918	3.22
		¹ KLIBOR - 0.68%	75,663	3.16

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15 BORROWINGS/DERIVATIVE FINANCIAL ASSETS (CONTINUED)

15.2 Derivative financial instrument – Cross currency interest rate swap (“CCIRS”) (continued)

<u>Financial instruments</u>	<u>Functional currency/ currency exposure</u>	<u>Applicable interest rate</u>	<u>Total carrying amount</u> RM'000	<u>Effective interest rate at end of reporting date</u> %
<u>As at 31 December 2014</u>				
Term loan	RM/RM	¹ KLIBOR + 0.30%	450,874	4.16
	RM/USD	² LIBOR + 0.75%	840,661	1.01
CCIRS	RM/USD	¹ KLIBOR - 0.56%	57,829	3.30
		¹ KLIBOR - 0.62%	30,379	3.24
		¹ KLIBOR - 0.68%	30,357	3.18
STRC	RM/RM	COF + 0.35%	250,000	3.63
	RM/RM	¹ KLIBOR + 0.26%	140,000	3.69
	RM/RM	COF + 0.35%	76,740	3.73

16 INVENTORIES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Crude oil	430,810	393,132
Less: Allowance for inventories write-down to net realisable value	(2,756)	(12,990)
	<u>428,054</u>	<u>380,142</u>
Petroleum products	248,300	462,282
Less: Allowance for inventories write-down to net realisable value	(1,694)	(67,720)
	<u>246,606</u>	<u>394,562</u>
Materials	21,993	26,991
Less: Allowance for slow moving inventories	(949)	(512)
	<u>21,044</u>	<u>26,479</u>
	<u>695,704</u>	<u>801,183</u>

Included within crude oil is stock in transit as at 31 December 2015 of RM115,405,927 (2014: RM5,495,211).

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17 TRADE RECEIVABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Trade receivables	24,513	26,980
Less: Allowance for doubtful debts	0	(9)
	<u>24,513</u>	<u>26,971</u>

The credit terms range between 15 to 30 days (2014: 15 to 30 days).

As at 31 December 2015, trade receivables amounting to RM9,453,000 (2014: RM2,248,000) were past due but not impaired as management is of the view that these amount will be recoverable. Subsequent to year end, 85% of the amount has been recovered as at the reporting date.

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

	<u>Less than</u> <u>30 days</u> RM'000	<u>Between 30</u> <u>to 180 days</u> RM'000	<u>Over 180</u> <u>days</u> RM'000	<u>Total</u> RM'000
<u>As at 31 December 2015</u>				
Past due but not impaired	6,194	2,651	608	9,453
Impaired	0	0	0	0
	<u>6,194</u>	<u>2,651</u>	<u>608</u>	<u>9,453</u>
<u>As at 31 December 2014</u>				
Past due but not impaired	211	1,349	688	2,248
Impaired	0	0	9	9
	<u>211</u>	<u>1,349</u>	<u>688</u>	<u>2,248</u>

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17 TRADE RECEIVABLES (CONTINUED)

The carrying amounts of trade receivables at the end of reporting date approximated their fair values due to the short-term maturities of the instruments.

As of 31 December 2015 RM NIL (2014: RM8,696) was impaired. The individually impaired receivables mainly relate to contentious balances and customer facing financial distress. The impaired receivables are overdue for more than a year.

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
As at 1 January	9	281
Reversal of doubtful debts	(9)	(272)
As at 31 December	<u>0</u>	<u>9</u>

Amounts charged to allowance account are generally written off, when there is no expectation of recovering additional cash.

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

18 OTHER RECEIVABLES AND PREPAYMENTS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Goods and Service Tax ('GST')	28,925	0
Other receivables	827	653
Staff car loan	0	273
Prepayments	512	478
	<u>30,264</u>	<u>1,404</u>

The carrying amounts of financial assets (excluding prepayments and GST) at the end of reporting date approximated their fair values. Other receivables and staff car loan do not contain impaired assets. The entire GST receivable is from Customs authorities.

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19 AMOUNTS RECEIVABLE FROM/(PAYABLE TO) RELATED COMPANIES

As at 31 December 2015, the amounts receivable from related companies of RM1,106,372 (2014: RM2,344,260) were past due but not impaired. The Directors are of the view that such credit risk is minimal in view of the stability of the fellow subsidiaries' financial position. Ageing analysis of these amounts receivable from related companies is as follows:

	Less than 30 days RM'000	Between 30 to 180 days RM'000	Over 180 days RM'000	Total RM'000
<u>As at 31 December 2015</u>				
Past due but not impaired	0	0	1,106	1,106
Impaired	0	0	759	759
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>As at 31 December 2014</u>				
Past due but not impaired	16	589	1,739	2,344
Impaired	0	0	407	407
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The fair values of related party balances approximate the carrying value as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the weighted average borrowing rate of 2.71% per annum (2014: 2.97%). The discount rate equals to KLIBOR plus appropriate credit rating.

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

As of 31 December 2015 receivables from related companies of RM759,124 (2014: RM407,714) was impaired. The individually impaired receivables mainly relate to long-outstanding balances with related host companies for pension fund paid on behalf of crosspostees.

Movement on the allowance for impairment of amounts receivables from related Companies is as follows:

	<u>2015</u> RM'000	<u>2014</u> RM'000
As at 1 January	407	1,026
Reversal of doubtful debts	(407)	(619)
Allowance for doubtful debts	759	0
	<u> </u>	<u> </u>
As at 31 December	<u>759</u>	<u>407</u>

Amounts charged to allowance account are generally written off, when there is no expectation of recovering additional cash.

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20 CASH AND CASH EQUIVALENTS

	<u>2015</u> RM'000	<u>2014</u> RM'000
Deposits with licensed banks	171,820	0
Bank balances	3,703	8,737
	<u>175,523</u>	<u>8,737</u>

The deposits held at call with banks are at an interest rate of 3.5% which matured on 4 January 2016.

21 SHARE CAPITAL

	<u>2015</u> RM'000	<u>2014</u> RM'000
<u>At 1 January/At 31 December</u> Authorised 300,000,000 units of ordinary shares of RM1 each	<u>300,000</u>	<u>300,000</u>
<u>At 1 January/At 31 December</u> Issued and fully paid 300,000,000 units of ordinary shares of RM1 each	<u>300,000</u>	<u>300,000</u>

22 PSP FROM RDS

Performance share plans ("PSP") are awarded to eligible employees based on their sustained performance and forms part of their remuneration package. Nominated employees are awarded a conditional notional number of Royal Dutch Shell plc ("RDS") shares. A number of real shares may be transferred to them depending on the outcomes of prescribed performance conditions over a three-year period beginning on January 1 of the award year.

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

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22 PSP FROM RDS (CONTINUED)

There are a number of share-based compensation plans for employees of the RDS Group.

	Royal Dutch Shell plc Class A Shares	
	Number	Weighted Average Exercise Price
Under option at 1 January 2014	35,505	
Granted	12,290	
Exercised	(11,300)	35.16
Expired/forfeited	0	35.16
	<hr/>	<hr/>
Under option at 31 December 2014	36,495	
Granted	13,765	
Exercised	(11,390)	32.81
Expired/forfeited	(1,700)	32.81
	<hr/>	<hr/>
Under option at 31 December 2015	<u>37,170</u>	

The weighted average market price for exercises in 2015 was USD32.81 (RM140.87) ((2014: USD35.16) (RM114.88)) for Royal Dutch Shell plc Class A shares

The share based compensation expense to the Company amounted to RM1,728,904 (2014: RM1,144,384).

23 TRADE AND OTHER PAYABLES

	<u>2015</u> RM'000	<u>2014</u> RM'000
Trade payables	32,332	22,213
Sundry accruals	31,781	26,492
Accruals for consumables and services	14,757	13,570
Accruals for capital expenditure	8,157	13,283
	<hr/>	<hr/>
	<u>87,027</u>	<u>75,558</u>

The Company's trade payables are unsecured. The credit terms for trade payables range from 30 to 45 days (2014: 30 to 45 days).

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NOTES TO THE FINANCIAL STATEMENTS
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24 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 gross movement on the deferred income tax account is as follows:

	<u>2015</u> RM'000	<u>2014</u> RM'000
As at 1 January	0	(34,705)
Credited/(charged) to profit or loss (Note 10):		
- property, plant and equipment	17,828	75,812
- allowance for doubtful debts	180	(68)
- allowance for inventories write-down	(18,302)	19,235
- allowance for slow moving inventories	228	0
- unused tax losses	0	(51,580)
- unused reinvestment allowance	0	(8,698)
- performance share plan	66	4
	<u>0</u>	<u>34,705</u>
As at 31 December	<u>0</u>	<u>0</u>
Deferred tax liabilities (before offsetting):		
- property, plant and equipment	(1,858)	(19,686)
Offsetting	1,858	19,686
As at 31 December (after offsetting)	<u>0</u>	<u>0</u>
Deferred tax assets (before offsetting):		
- allowance for doubtful debts	182	2
- allowance for inventories write down	1,068	19,370
- allowance for slow moving inventories	228	0
- performance share plan	380	314
	<u>1,858</u>	<u>19,686</u>
Offsetting	(1,858)	(19,686)
As at 31 December (after offsetting)	<u>0</u>	<u>0</u>

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Tax losses carried forward	647,655	705,770
Capital allowances carried forward	0	300,664
Unabsorbed reinvestment allowance	495,177	495,177
	<u>1,142,832</u>	<u>1,501,611</u>

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24 DEFERRED TAXATION (CONTINUED)

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

25 SIGNIFICANT RELATED PARTIES TRANSACTIONS

The related party transactions of the Company comprise mainly transactions between the Company and its related companies. Related party transactions also include transactions with entities that are controlled, significantly influenced directly or indirectly by the Directors, key management personnel of the Company or their close family members.

In the normal course of business, the Company undertakes a variety of transactions with fellow subsidiaries whose common ultimate holding company is Royal Dutch Shell plc. The Directors regard Shell Overseas Holdings Limited as the Company's immediate holding company.

In addition to related party balances mentioned elsewhere in the financial statements, set out below is significant related party transactions, which were carried out on terms and conditions negotiated amongst the related parties:

	<u>2015</u> RM'000	<u>2014</u> RM'000
(a) Income:		
(i) Sale of refined products to:		
- Shell Malaysia Trading Sendirian Berhad	6,882,388	11,228,285
- Shell International Eastern Trading Company	214,236	530,532
- Shell Timur Sendirian Berhad	1,289,837	1,485,178
- Shell Eastern Chemicals Pte Limited	<u>257,537</u>	<u>364,856</u>
(ii) Tariff revenue on the use of properties/facilities:		
- Shell Malaysia Trading Sendirian Berhad	<u>21,977</u>	<u>14,166</u>
(b) Expenses:		
(i) Purchase of crude and products from:		
- Shell International Eastern Trading Company	(7,977,535)	(13,851,885)
- Shell Eastern Trading Pte Limited	(176,161)	(226,191)
- Shell Lubricants Supply Company	<u>(53,101)</u>	<u>(47,726)</u>

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25 **SIGNIFICANT RELATED PARTIES TRANSACTIONS (CONTINUED)**

	<u>2015</u> RM'000	<u>2014</u> RM'000
(ii) Central management and administrative expenses recharged from:		
- Shell Global Solutions International B.V.	(8,105)	(1,384)
- Shell Malaysia Trading Sendirian Berhad	(9,050)	(3,571)
- Shell Global Solutions (Malaysia) Sendirian Berhad	(3,456)	(1,113)
- Shell International Petroleum Company Limited	(29,766)	(28,088)
	<u> </u>	<u> </u>
(c) Outstanding balances:		
<u>Receivables</u>		
- Shell Malaysia Trading Sendirian Berhad	596,180	628,622
- Shell Timur Sendirian Berhad	46,861	49,157
- Shell Eastern Trading Pte Limited	24,867	16,597
- Shell International Eastern Trading Company	14,543	46,393
	<u> </u>	<u> </u>
<u>Payables</u>		
- Shell International Eastern Trading Company	(595,061)	(597,686)
- Shell International Petroleum Company Limited	(37,202)	(7,418)
- Shell Malaysia Trading Sendirian Berhad	(21,260)	(7,351)
- Shell Eastern Trading Pte Limited	(12,439)	(30,413)
	<u> </u>	<u> </u>
(d) Capital commitments as at 31 December 2015 include unsecured commitment for purchase of catalysts amounting to RM NIL (2014:RM1,103,707) with Criterion Marketing Asia Pacific Pte. Ltd. (wholly owned subsidiary of Royal Dutch Shell plc).		

Key management personnel are the persons who have authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. Key management personnel of the Company include the Board of Directors (disclosed in Note 12) and senior management personnel of the Company.

	<u>2015</u> RM'000	<u>2014</u> RM'000
Compensation for key management personnel:		
- salaries, bonus and allowances	5,890	5,111
- fees	441	465
- defined contribution plan	978	1,019
- benefits in kind	225	377
- shared based payments	307	514
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26 CONTINGENT LIABILITIES

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

27 CAPITAL COMMITMENTS

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

	<u>2015</u> RM'000	<u>2014</u> RM'000
Approved and contracted for	0	6,604
Approved but not contracted for	22,940	64,611
	<u>22,940</u>	<u>71,215</u>

28 SEGMENTAL INFORMATION

Segmental reporting is not separately presented as the Company is principally engaged in the oil and gas industry namely refining and manufacturing of petroleum products in Malaysia, which are substantially within a single business segment. The Company operates primarily in Malaysia. Accordingly, no segmental information is considered necessary for analysis by industry segments or by geographical segment.

Additionally, performance is measured based on refining margins and profit before tax, as included in the internal management reports which are reviewed by the chief operating decision-maker comprising the Board of Directors.

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NOTES TO THE FINANCIAL STATEMENTS
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29 FINANCIAL INSTRUMENTS BY CATEGORY

	2015 RM'000	2014 RM'000
<u>Financial assets as per statement of financial position</u>		
<u>Loans and receivables</u>		
Trade and other receivables excluding prepayments and GST	25,340	27,897
Amounts receivable from related companies	684,043	743,169
Cash and cash equivalents	175,523	8,737
	<u>884,906</u>	<u>779,803</u>
 <u>Assets at fair value through profit or loss</u>		
Derivative financial asset	305,188	118,565
	<u>305,188</u>	<u>118,565</u>
 <u>Financial liabilities as per statement of financial position</u>		
<u>Other financial liabilities at amortised cost</u>		
Trade and other payables excluding statutory liabilities	86,070	73,668
Amounts payable to related companies	705,045	652,573
Borrowings	1,481,054	1,758,275
	<u>2,272,169</u>	<u>2,484,516</u>

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30 SUBSEQUENT EVENTS

- (a) As announced on 1 February 2016, Shell Overseas Holdings Limited (“SOHL”) the major shareholder of the Company had entered into a conditional sale and purchase agreement with Malaysia Hengyuan International Limited (“MHIL”) for the acquisition by MHIL of 153,000,000 ordinary shares of RM1.00 each held by SOHL in the Company, representing 51% of the issued and paid up share capital of the Company for a total cash consideration of USD66,300,000, which was announced by the Company on 2 February 2016 (“Proposed Acquisition”). The Proposed Acquisition is expected to complete in 2016 and is conditional upon the fulfilment of several conditions precedent, which include but is not limited to, regulatory approval.

The Board of Directors notes that the Proposed Acquisition will oblige MHIL to extend a mandatory general offer for all the remaining shares in SRC not already held by MHIL.

- (b) On 13 April 2016, The Company entered into supplemental agreement to the existing facility agreement to repay USD60,000,000 by 30 June 2016 and extend the maturity date of remaining term loan of USD180,000,000 from 14 September 2016 to 14 March 2017 as disclosed in Note 15.1.

31 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 18 April 2016.

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

The following analysis of realised and unrealised profits or losses at the legal entity level is prepared in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Total retained earnings of Shell Refining Company (Federation of Malaya) Berhad:

	<u>2015</u> RM'000	<u>2014</u> RM'000
Realised	497,743	96,958
Unrealised	(122,577)	(73,580)
Retained earnings as at 31 December	<u>375,166</u>	<u>23,378</u>

The unrealised losses disclosed above are charges relating to the fair value gain on derivative financial instruments and unrealised foreign exchange losses.

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be used for any other purpose.