



HENGYUAN REFINING COMPANY BERHAD

(formerly known as Shell Refining Company(Federation of Malaya) Berhad)

(3926-U)

(Incorporated in Malaysia)

In accordance with the approval of the Board of Directors' of Hengyuan Refining Company Berhad (formerly known as Shell Refining Company (Federation of Malaya) Berhad) ("the Company") dated 24 May 2017, the Board hereby announces its financial results for the first quarter ended 31 March 2017.

The condensed financial statements have been prepared in accordance with the requirements of Malaysian Financial Reporting Standard (MFRS) 134 "Interim Financial Reporting" and paragraph 9.22 of the Bursa Malaysia Securities Berhad ("BMSB") Main Market Listing Requirements, and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2016.



HENGYUAN REFINING COMPANY BERHAD
(formerly known as Shell Refining Company(Federation of Malaya) Berhad)
(3926-U)
(Incorporated in Malaysia)

Condensed Statement of Comprehensive Income

		Unaudited	Unaudited	Unaudited	Unaudited
		Quarter ended	31.03.2016	Cumulative period ended	31.03.2016
Note	31.03.2017	RM'000	RM'000	RM'000	RM'000
Revenue	A8	2,931,560	1,869,951	2,931,560	1,869,951
Purchases		(2,535,953)	(1,654,405)	(2,535,953)	(1,654,405)
Gross profit		395,607	215,546	395,607	215,546
Other income		5,969	4,866	5,969	4,866
Manufacturing expenses		(52,726)	(41,235)	(52,726)	(41,235)
Administrative expenses		(6,495)	(12,346)	(6,495)	(12,346)
Depreciation and amortisation		(52,552)	(45,638)	(52,552)	(45,638)
Other operating gains/(losses)		6,221	(7,127)	6,221	(7,127)
Finance cost		(16,539)	(12,094)	(16,539)	(12,094)
Profit before taxation	A10	279,485	101,972	279,485	101,972
Taxation	A11	-	(322)	-	(322)
Profit after taxation		279,485	101,650	279,485	101,650
Other comprehensive income/(expenses):					
Foreign currency translation difference		(15,160)	-	(15,160)	-
Total comprehensive income for the period		264,325	101,650	264,325	101,650
Earnings per share:					
- basic (sen)	A9	93.16	33.88	93.16	33.88
- diluted (sen)	A9	N/A	N/A	N/A	N/A

The above Condensed Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying supplementary notes to these condensed financial statements.



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Condensed Statement of Financial Position

	Note	Unaudited As at 31.03.2017 RM'000	Audited As at 31.12.2016 RM'000
NON-CURRENT ASSETS			
Property, plant and equipment		810,422	851,282
Prepaid lease payments		1,792	1,824
Intangible assets		46,231	51,444
		<u>858,445</u>	<u>904,550</u>
CURRENT ASSETS			
Inventories		1,075,643	825,819
Trade receivables		960,274	950,686
Other receivables and prepayments		57,854	41,514
Tax recoverable		1,050	1,050
Deposit with licensed banks		238,700	328,900
Bank balances		101,016	26,712
		<u>2,434,537</u>	<u>2,174,681</u>
TOTAL ASSETS		<u>3,292,982</u>	<u>3,079,231</u>
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Share capital		300,000	300,000
Retained earnings		989,924	710,439
Foreign currency exchange reserve		(15,160)	-
		<u>1,274,764</u>	<u>1,010,439</u>
CURRENT LIABILITIES			
Trade and other payables		604,205	651,879
Borrowings	A18	101,366	87,324
		<u>705,571</u>	<u>739,203</u>
NON-CURRENT LIABILITIES			
Borrowings	A18	1,312,647	1,329,589
		<u>1,312,647</u>	<u>1,329,589</u>
TOTAL EQUITY AND LIABILITIES		<u>3,292,982</u>	<u>3,079,231</u>

The above Condensed Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying supplementary notes to these condensed financial statements.



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Condensed Statement of Changes in Equity

	Issued and fully paid ordinary shares of RM 1 each		Non - distributable		Distributable	<u>Total</u> RM'000
	<u>Numbers of Shares</u> '000	<u>Nominal Value</u> RM'000	<u>PSP reserve</u> RM'000	<u>Foreign exchange reserve</u> RM'000	<u>Retained earnings</u> RM'000	
Unaudited						
At 1 January 2017	300,000	300,000	-	-	710,439	1,010,439
Profit for the period	-	-	-	-	279,485	279,485
Other comprehensive expense	-	-	-	(15,160)	-	(15,160)
Total comprehensive income for the financial period	-	-	-	(15,160)	279,485	264,325
At 31 March 2017	300,000	300,000	-	(15,160)	989,924	1,274,764
Audited						
At 1 January 2016	300,000	300,000	1,924	-	375,166	677,090
Profit for the period/ Total comprehensive income for the financial period	-	-	-	-	335,273	335,273
PSP from RDS	-	-	-	-	-	-
- recharge by the parent	-	-	(2,983)	-	-	(2,983)
- charge during the year	-	-	1,059	-	-	1,059
	-	-	-	-	-	-
At 31 December 2016	300,000	300,000	0	-	710,439	1,010,439

The above Condensed Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying supplementary notes to these condensed financial statements.



HENGYUAN REFINING COMPANY BERHAD
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Condensed Statement of Cash Flows

	Quarter ended	
	31.03.2017	31.03.2016
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	279,485	101,972
Adjustments for:		
Depreciation of property, plant and equipment	48,002	45,638
Amortisation of intangible assets	4,544	-
Amortisation of prepaid lease payments	6	4
Interest expense	16,539	10,890
Interest income	(2,507)	(1,341)
Net foreign exchange (gain)/loss - unrealised	(4,761)	(113,008)
Fair value loss on derivative financial instruments	-	91,053
Write back of allowance for inventories	-	(2,827)
Operating profit before changes in working capital	341,308	132,381
Changes in working capital		
Inventories	(262,400)	82,578
Trade and other receivables	(35,710)	(6,332)
Trade and other payables	(38,760)	(176,578)
Cash generated from operations	4,438	32,049
Interest received	2,507	1,341
Tax paid	-	(463)
Net cash flow generated from operating activities	6,945	32,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(18,481)	(10,617)
Net cash flows used in investing activities	(18,481)	(10,617)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	-	(10,886)
Prepaid term loan instalments	(32,688)	-
Security deposit placed with a licensed bank for trade facilities	(10,000)	-
Net cash flows used in financing activities	(42,688)	(10,886)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(54,224)	11,424
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	344,516	175,523
EFFECTS OF EXCHANGE RATE CHANGES	(4,360)	(482)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	285,932	186,465
Cash and cash equivalents comprise of:		
Deposit with licensed banks	238,700	185,510
Bank balances	101,016	955
Less: Restricted cash	(53,784)	-
	285,932	186,465

The above Condensed Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2016 and the accompanying supplementary notes to these condensed financial statements.



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

A1 Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia (BMSB). These condensed financial statements also comply with IAS 134 Interim Financial Reporting issued by the International Accounting Standards Board. This report should be read in conjunction with the Company's audited financial statements for the financial year ended 31 December 2016.

The explanatory notes to this report provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Company since the financial year ended 31 December 2016.

The financial information presented herein have been prepared in accordance with the accounting policies used in preparing the audited financial statements for the financial year ended 31 December 2016, and for the following standards which became effective on 1 January 2017:

(a) Standards, amendments to published standards and interpretations that are effective for financial year beginning 1 January 2017

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

(b) Standards, amendments to published standards and interpretations that have been issued but not yet effective

- MFRS 9 'Financial Instruments' (effective from 1 January 2018)
- MFRS 15 'Revenue from contracts with customers' (effective from 1 January 2018)
- IC Interpretation 22 'Foreign Currency Transactions and Advance Consideration' (effective from 1 January 2018)
- MFRS 16 'Leases' (effective from 1 January 2019)



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

A1 Basis of preparation (continued)

Change in functional currency from RM to USD

A company's functional currency should reflect the underlying transactions, events and conditions that are relevant to it which includes the currency of the primary economic environment in which a company generates and expends cash, the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are usually retained. The Company has changed its functional currency from RM to USD with effect from 1 January 2017 following the refinancing of the Company's borrowings to entirely USD denominated loans.

The Company continues to present its condensed financial statements in Ringgit Malaysia, consistent with the requirements of Companies Act, 2016 which requires financial statements and reports to be quoted in Ringgit Malaysia. The resulting exchange differences arising from the conversion to Ringgit Malaysia presentation currency have been recognised within other comprehensive income.

A2 Audit report of preceding annual financial statement

The audit report of the Company's financial statement for the financial year ended 31 December 2016 was not subjected to any audit qualification.

A3 Comments about seasonal or cyclical Factors

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

A4 Significant events and transactions

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

A5 Critical accounting estimates and judgments

There were no changes in estimates of amounts reported in prior periods that had a material effect in the current quarter.



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

A6 Debt and equity securities

There were no issuances of new debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares during the financial period ended 31 March 2017.

A7 Segmental reporting

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

A8 Revenue

	Quarter ended		Cumulative period ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM'000	RM'000	RM'000	RM'000
Sale of oil products				
- Refined	2,930,511	1,869,102	2,930,511	1,869,102
- Crude oil	1,049	849	1,049	849
	2,931,560	1,869,951	2,931,560	1,869,951



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

A9 Earnings per share

		Quarter ended		Cumulative period ended	
		31.03.2017	31.03.2016	31.03.2017	31.03.2016
(a) Basic earnings per share					
Net profit for the period	(RM'00)	279,485	101,650	279,485	101,650
Weighted average number of ordinary shares in issue	('000)	300,000	300,000	300,000	300,000
Basic earnings per share	(sen)	93.16	33.88	93.16	33.88
(b) Diluted earnings per share					
	(sen)	N/A	N/A	N/A	N/A

A10 Profit before taxation

	Unaudited Quarter ended		Unaudited Cumulative period ended	
	31.03.2017 RM'000	31.03.2016 RM'000	31.03.2017 RM'000	31.03.2016 RM'000
<i>The profit before taxation is arrived at after charging/(crediting):</i>				
Interest income	(2,507)	(1,341)	(2,507)	(1,341)
Operating and transport fees	(3,452)	(3,525)	(3,452)	(3,525)
Interest expense	16,539	10,890	16,539	10,890
Depreciation of property, plant and equipment	48,002	45,638	48,002	45,638
Amortisation of intangible asset	4,544	0	4,544	0
Amortisation of prepaid lease payment	6	4	6	4
Write back of allowance for inventories	0	(2,827)	0	(2,827)
Foreign exchange (gain)/loss - realised	(1,460)	(14,398)	(1,460)	(14,398)
Foreign exchange (gain)/loss – unrealised	(4,761)	(113,008)	(4,761)	(113,008)
Fair Value (gain)/loss on derivatives	0	91,053	0	91,053

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



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

A11 Taxation

Details of the Company's taxation are as follows:

	Quarter ended		Cumulative period ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
<u>Malaysian Tax</u>	RM'000	RM'000	RM'000	RM'000
Current tax	-	322	-	322
Deferred tax	-	-	-	-
	<u>-</u>	<u>322</u>	<u>-</u>	<u>-</u>

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

	Quarter ended		Cumulative period ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
Applicable tax rate				
Tax effects in respect of:	24%	24%	24%	24%
- Expenses not deductible for tax purposes	1%	1%	1%	1%
- Utilisation of tax losses / deductible temporary	-25%	-25%	-25%	-25%
Effective tax rate	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>



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

A12 Dividends

The Company did not declare any dividend for the 3 months period ended 31 March 2017.

A13 Changes in the composition of the Company

There were no changes in the composition of the Company during the current quarter.

A14 Changes in contingent assets / liabilities

There were no significant changes in contingent liabilities or assets since the last annual financial statements as at 31 December 2016.

A15 Corporate proposal

The Company does not have anything to report with regards the status of corporate proposals.

A16 Material Litigation

There were no material litigations involving the Company since 31 December 2016.



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

A17 Fair value disclosures

(a) Financial instruments carried at amortised cost:

The carrying amounts of financial assets and liabilities of the Company approximated their fair values as at 31 March 2017.

(b) Financial instruments carried at fair value:

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

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

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

	As at 31 March 2016	
	Contract value USD'000	Fair value RM'000
<u>Derivatives</u>		
Cross currency interest rate swaps (CCIRS) with less than 1 year maturity	240,000	214,135



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

A18 Borrowings

Details of the Company's borrowings as at 31 March 2017 are as follows:

	As at 31.03.2017 RM '000	As at 31.12.2016 RM '000
Term Loans (secured)		
- Term Loan I	883,991	884,529
- Term Loan II	530,022	532,384
	1,414,013	1,416,913
Less: Amount repayable within 12 months	(101,366)	(87,324)
Amount repayable after 12 months	1,312,647	1,329,589
Currency Profile of borrowings:		
- USD	1,414,013	1,416,913

USD200 million Term Loan I

This loan was fully drawdown on 22 December 2016. It is repayable in half yearly instalments, with the first instalment falling due on 21 June 2017. The principal is repayable in the following tranches:

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

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

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



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

A18 Borrowings (continued)

This facility is secured by:

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

USD150 million Term Loan II

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

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

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

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



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

A19 Capital commitments

Capital commitments not provided for in the financial statements as at 31 March 2017 are as follows:

	RM'000
Property, plant and equipment	
Authorised by Directors and contracted for	58,231
Authorised by Directors but not contracted for	<u>1,029</u>
	<u>59,260</u>

A20 Company's performance

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

A21 Current year prospects

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



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

A22 Related party disclosure

	Quarter ended		Cumulative period ended	
	31.03.2017	31.03.2016	31.03.2017	31.03.2016
	RM '000	RM '000	RM '000	RM '000
Sales of refined products to	-	1,781,410	-	1,781,410
Tariff revenue on the use of properties / facilities	-	4,324	-	4,324
Purchase of crude and products	-	1,651,182	-	1,651,182
Central management and administrative expenses	-	13,486	-	13,486

Following the acquisition of 51% of the issued and paid-up capital of the Company by Malaysia Hengyuan International Limited from Shell Overseas Holdings Limited on 22 December 2016, all transactions with companies affiliated to Royal Dutch Shell Plc have not been disclosed as related party transactions in accordance with MFRS 124 “Related Party Disclosures”. Accordingly, all trade and non-trade transactions with Royal Dutch Shell Plc and its affiliates have been classified as transactions with external parties.

There were no trade or non-trade transactions with Malaysia Hengyuan International Limited or with its affiliated companies during the current quarter ended 31 March 2017.



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**Supplementary Information Disclosed
Pursuant to Bursa Malaysia Securities Berhad Listing Requirements**

A23 Retained Earnings

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

Total retained earnings of the Company:

	31.03.2017	31.12.2016
	RM'000	RM'000
Realised	985,163	715,324
Unrealised	4,761	(4,885)
	989,924	710,439

The unrealised portion of the retained earnings disclosed above represents the cumulative unrealized foreign currency exchange gains/(losses).



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Part B: Additional Information Required By Bursa Malaysia Listing Requirements

B1 Review of Performance – YTD Q1 2017 vs. YTD Q1 2016

The Company recorded revenue of RM2.9 billion for the financial period ended 31 March 2017, approximately 56% higher than the RM1.9 billion in the same period last year. This is primarily due to higher average product prices in the current period of USD65/barrel as compared to USD42/barrel in the same period last year. Sales volume in the current quarter is 10.1 million barrels, marginally lower than the 10.4 million barrels sold in the same quarter of 2016.

The Company posted an after-tax profit of RM279.5 million for the quarter ended 31 March 2017 compared to RM101.7 million for the quarter ended 31 March 2016. The Company recorded an improved gross profit margin due to improved average product cracks in the current period. The Company also recorded a net gain on foreign currency exposure, mainly on trade receivables as MYR gradually strengthened against the USD during the quarter under review. Lower administrative expenses were offset by pre-turnaround maintenance costs, IT subscription charges, higher finance costs and additional amortization charges arising from new software/intellectual property assets capitalized towards the end of FY2016.

B2 Variation of results against previous quarter – Q1 2017 vs. Q4 2016

The Company registered revenue of RM2.9 billion in Q1 2017, 15% higher when compared to RM 2.5 billion revenue recognised in Q4 2016. This is a result of improved average product prices during the current quarter and a marginally higher sales volume of 10.1 million barrels compared to 9.8 million barrels in Q4 2016.

The Company closed the current quarter with an after-tax profit of RM279.5 million against an after-tax profit of RM207.8 million in the previous quarter, as a result of a higher average product cracks.



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

B3 Current year prospects

Refinery margins are expected to remain uncertain. Operational efficiency, product quality and financial risk management will continue to remain the Company's key focus in maximising margin opportunities for FY2017.

B4 Profit forecast

We do not issue any profit forecast.

BY ORDER OF THE BOARD

Lim Hooi Mooi (MAICSA 0799764)
Ong Wai Leng (MAICSA 7065544)
Company Secretaries

Kuala Lumpur
24 May 2017