



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

In accordance with the approval of the Board of Directors of Hengyuan Refining Company Berhad (“the Company”) dated 24 May 2019, the Board hereby announces its unaudited financial results for the first quarter ended 31 March 2019.

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



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

Condensed Statement of Comprehensive Income

	Note	Unaudited Individual quarter ended 31.03.2019 RM'000	Unaudited quarter ended 31.03.2018 RM'000	Unaudited Cumulative period ended 31.03.2019 RM'000	Unaudited period ended 31.03.2018 RM'000
Revenue	A8	2,959,957	3,060,784	2,959,957	3,060,784
Purchases		<u>(2,776,403)</u>	<u>(2,887,057)</u>	<u>(2,776,403)</u>	<u>(2,887,057)</u>
Gross profit		183,554	173,727	183,554	173,727
Other income		818	4,866	818	4,866
Manufacturing expenses		(47,906)	(46,626)	(47,906)	(46,626)
Administrative expenses		(13,553)	(11,223)	(13,553)	(11,223)
Depreciation and amortisation		(36,894)	(46,320)	(36,894)	(46,320)
Other operating (losses)/gains		(36,573)	62,750	(36,573)	62,750
Finance cost		<u>(8,754)</u>	<u>(28,371)</u>	<u>(8,754)</u>	<u>(28,371)</u>
Profit before taxation	A10	40,692	108,803	40,692	108,803
Taxation	A11	<u>(19,120)</u>	<u>(21,995)</u>	<u>(19,120)</u>	<u>(21,995)</u>
Profit after taxation		21,572	86,808	21,572	86,808
Other comprehensive (expense)/income:					
<i>Items that will be reclassified to profit or loss:</i>					
Cash flow hedge-net fair value (loss)/gain on derivative used for hedging (net of tax)		(67,533)	1,248	(67,533)	1,248
Cost of hedging reserve (net of tax)		26,160	-	26,160	-
<i>Items that will not be reclassified to profit or loss:</i>					
Foreign currency translation differences		(29,229)	(84,824)	(29,229)	(84,824)
		<u>(70,602)</u>	<u>(83,576)</u>	<u>(70,602)</u>	<u>(83,576)</u>
Total comprehensive (expense)/ income for the financial period		<u>(49,030)</u>	3,232	<u>(49,030)</u>	3,232
Earnings per share:					
- basic (sen)	A9	7.19	28.94	7.19	28.94
- diluted (sen)	A9	N/A	N/A	N/A	N/A

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



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

Condensed Statement of Financial Position

	Note	Unaudited As at <u>31.3.2019</u> RM'000	Audited As at <u>31.12.2018</u> RM'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,399,326	1,280,770
Prepaid lease payments		1,615	1,643
Intangible assets		18,488	23,032
Right-of-use assets		43,598	-
Derivative financial assets	A18	59,344	136,852
		<u>1,522,371</u>	<u>1,442,297</u>
CURRENT ASSETS			
Inventories		1,447,925	1,218,160
Trade receivables		969,914	915,840
Amount due from immediate holding company - trade		22,388	7,745
Other receivables and prepayments		305,322	228,343
Tax recoverable		1,889	1,627
Derivative financial assets	A18	123,066	151,439
Bank balances	A21	83,972	204,880
		<u>2,954,476</u>	<u>2,728,034</u>
TOTAL ASSETS		<u>4,476,847</u>	<u>4,170,331</u>
CAPITAL AND RESERVES ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		300,000	300,000
Retained earnings		1,685,532	1,665,040
Cash flow hedge reserve		128,979	196,512
Cost of hedging reserve		(6,213)	(32,373)
Exchange translation reserve		(136,749)	(107,520)
		<u>1,971,549</u>	<u>2,021,659</u>
CURRENT LIABILITIES			
Trade and other payables		1,540,542	920,287
Amount due to immediate holding company – trade and non-trade		19,993	24,982
Lease liabilities		8,775	-
Derivative financial liabilities	A18	9,962	8,250
Borrowings	A19	350,250	555,095
		<u>1,929,522</u>	<u>1,508,614</u>
NON-CURRENT LIABILITIES			
Derivative financial liabilities	A18	10,680	6,329
Lease liabilities		36,344	-
Borrowings	A19	485,505	595,537
Deferred tax liabilities		43,247	38,192
		<u>575,776</u>	<u>640,058</u>
TOTAL EQUITY AND LIABILITIES		<u>4,476,847</u>	<u>4,170,331</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 2018 and the accompanying supplementary notes to these condensed financial statements.



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

Condensed Statement of Changes in Equity

	Issued and fully paid ordinary shares		Cash flow hedge reserve RM'000	Cost of hedging reserve RM'000	Non-distributable	Distributable	Total RM'000
	Number of shares '000	Nominal value RM'000			Exchange translation reserve RM'000	Retained earnings RM'000	
Unaudited							
At 1 January 2019							
- as previously stated	300,000	300,000	196,512	(32,373)	(107,520)	1,665,040	2,021,659
- effect of transitioning to MFRS 16	-	-	-	-	-	(1,080)	(1,080)
- as restated	300,000	300,000	196,512	(32,373)	(107,520)	1,663,960	2,020,579
Net profit for the financial period	-	-	-	-	-	21,572	21,572
Other comprehensive (expense)/income for the financial period	-	-	(67,533)	26,160	(29,229)	-	(70,602)
Total comprehensive (expense)/income for the financial period	-	-	(67,533)	26,160	(29,229)	21,572	(49,030)
At 31 March 2019	<u>300,000</u>	<u>300,000</u>	<u>128,979</u>	<u>(6,213)</u>	<u>(136,749)</u>	<u>1,685,532</u>	<u>1,971,549</u>



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

Condensed Statement of Changes in Equity (continued)

	Issued and fully paid ordinary shares		Cash flow hedge reserve RM'000	Cost of hedging reserve RM'000	Non-distributable	Distributable	Total RM'000
	Number of shares '000	Nominal value RM'000			Exchange translation reserve RM'000	Retained earnings RM'000	
Unaudited							
At 1 January 2018	300,000	300,000	(1,727)	-	(149,777)	1,640,198	1,788,694
Net profit for the financial period	-	-	-	-	-	86,808	86,808
Other comprehensive income/(expense) for the financial period	-	-	1,248	-	(84,824)	-	(83,576)
Total comprehensive income/(expense) for the financial period	-	-	1,248	-	(84,824)	86,808	3,232
Transaction with owners							
Dividend payable to owners of the Company	-	-	-	-	-	(6,000)	(6,000)
Total transaction with owners	-	-	-	-	-	(6,000)	(6,000)
At 31 March 2018	<u>300,000</u>	<u>300,000</u>	<u>(479)</u>	<u>-</u>	<u>(234,601)</u>	<u>1,721,006</u>	<u>1,785,926</u>

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



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

Condensed Statement of Cash Flows

	Note	Quarter and cumulative period ended	
		Unaudited 31.03.2019 RM'000	Unaudited 31.03.2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		40,692	108,803
Adjustments for:			
Depreciation of property, plant and equipment		30,877	42,439
Depreciation of right-of-use assets		1,792	-
Amortisation of intangible assets		4,221	3,877
Amortisation of prepaid lease payments		4	4
Amortisation of term loan commitment fees		41	14,260
Interest expense		8,713	14,111
Interest income		(818)	(4,842)
Net fair value loss/(gain) on derivative financial instruments- unrealised		28,124	(938)
Net foreign exchange gains-unrealised		(3,236)	(1,719)
Operating profit before changes in working capital		<u>110,410</u>	<u>175,995</u>
Changes in working capital:			
Inventories		(222,223)	(674,660)
Trade, other receivables and amount due from holding company		(159,363)	(73,824)
Trade, other payables and amount due to holding company		589,278	542,646
Cash generated from/(used in) operating activities		<u>318,102</u>	<u>(29,843)</u>
Interest received		818	4,866
Tax paid		(417)	(286)
Net cash flows generated from/(used in) operating activities		<u>318,503</u>	<u>(25,263)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(124,836)	(23,694)
Proceeds from disposal of property, plant and equipment		33	-
Net cash flows used in investing activities		<u>(124,803)</u>	<u>(23,694)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,178,122)	(1,177,693)
Proceeds from borrowings		879,501	1,059,504
Repayment of principal portion of lease liabilities		(1,988)	-
Interest paid		(11,352)	(11,125)
Restricted cash for term loan facilities		54,541	(12,424)
Net cash flows used in financing activities		<u>(257,420)</u>	<u>(141,738)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(63,720)	(190,695)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		128,033	492,886
EFFECTS OF EXCHANGE RATE CHANGES		(1,687)	(18,559)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	A21	<u>62,626</u>	<u>283,632</u>

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



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

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

A1 Basis of preparation

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

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

The functional currency of the Company is United States Dollar (“USD”). The Company 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 financial information presented herein have been prepared in accordance with the accounting policies used in preparing the audited financial statements for the financial year ended 31 December 2018, and for the following standards and interpretation which became effective on 1 January 2019:

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

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



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

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

A1 Basis of preparation (continued)

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

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

- MFRS 16 “Leases”

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

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

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

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

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

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



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

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

A1 Basis of preparation (continued)

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

- MFRS 16 “Leases” (continued)

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

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

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

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

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



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

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

A1 Basis of preparation (continued)

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

- MFRS 16 “Leases” (continued)

Practical expedients applied

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

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



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

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

A1 Basis of preparation (continued)

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

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

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

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

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

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

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

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



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

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

A2 Audit report of preceding annual financial statements

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

A3 Comments about seasonal or cyclical factors

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

A4 Significant events and transactions

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 and period-to-date ended 31 March 2019.

A6 Debt and equity securities

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

A7 Segmental reporting

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



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

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

A8 Revenue

	Quarter ended		Cumulative period ended	
	<u>31.03.2019</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>31.03.2018</u>
	RM'000	RM'000	RM'000	RM'000
Sale of oil products				
- Refined	2,959,086	3,059,972	2,959,086	3,059,972
- Crude oil	871	812	871	812
	<u>2,959,957</u>	<u>3,060,784</u>	<u>2,959,957</u>	<u>3,060,784</u>

A9 Earnings per share

	Quarter ended		Cumulative period ended	
	<u>31.03.2019</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>31.03.2018</u>
(a) Basic earnings per share				
Net profit for the period (RM'000)	21,572	86,808	21,572	86,808
Weighted average number of ordinary shares in issue ('000)	300,000	300,000	300,000	300,000
Basic earnings per share (sen)	7.19	28.94	7.19	28.94
(b) Diluted earnings per share (sen)	N/A	N/A	N/A	N/A



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

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

A10 Profit before taxation

	Quarter ended		Cumulative period ended	
	<u>31.03.2019</u> RM'000	<u>31.03.2018</u> RM'000	<u>31.03.2019</u> RM'000	<u>31.03.2018</u> RM'000
<i>The profit before taxation is arrived at after (crediting)/charging:</i>				
Interest income	(818)	(4,842)	(818)	(4,842)
Operating and transport fees	-	(24)	-	(24)
Amortisation of term loan commitment fees	41	14,260	41	14,260
Interest expense	8,713	14,111	8,713	14,111
Depreciation of property, plant and equipment	30,877	42,439	30,877	42,439
Depreciation of right-of-use of assets	1,792	-	1,792	-
Amortisation of intangible assets	4,221	3,877	4,221	3,877
Amortisation of prepaid lease payments	4	4	4	4
Foreign exchange loss/(gain)-realised	5,445	(32,860)	5,445	(32,860)
Foreign exchange gain-unrealised	(3,236)	(28,952)	(3,236)	(28,952)
Fair value loss/(gain) on derivative financial instruments	18,923	(938)	18,923	(938)

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.



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

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	
	<u>31.03.2019</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>31.03.2018</u>
	RM'000	RM'000	RM'000	RM'000
<u>Malaysian Tax</u>				
Current tax	94	432	94	432
Deferred tax	19,026	21,563	19,026	21,563
	<u>19,120</u>	<u>21,995</u>	<u>19,120</u>	<u>21,995</u>

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

	Quarter ended		Cumulative period ended	
	<u>31.03.2019</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>31.03.2018</u>
	%	%	%	%
Applicable tax rate	24	24	24	24
Tax effects in respect of:				
- Expenses not deductible for tax	6	-	6	-
- Income not subject to tax	(1)	-	(1)	-
- Effect of difference between functional and tax reporting currency	18	(4)	18	(4)
	<u>47</u>	<u>20</u>	<u>47</u>	<u>20</u>



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

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

A12 Dividends

The Company did not declare any dividend for the current quarter and period-to-date ended 31 March 2019.

A13 Changes in the composition of the Company

There were no changes in the composition of the Company in the current quarter and period-to-date ended 31 March 2019.

A14 Changes in contingent assets/liabilities

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

A15 Corporate proposal

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

A16 Material litigation

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



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

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

A17 Commodity prices and foreign currency exchange exposures

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

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

The Company is also exposed to foreign currency exchange risks as a result of transactions entered into currencies other than its functional currency. The Company's exposure to foreign currencies is limited to financial assets and liabilities that are denominated in currencies other than the US Dollar. The Company may enter into foreign currency hedge transactions to manage this exposure.

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

Derivatives classified within current assets and current liabilities as at 31 March 2019 will mature within the next twelve months (31 December 2018: within 12 months). Derivatives classified within non-current assets and liabilities will mature beyond 12 months.



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

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

A18 Fair value disclosures

(a) Financial instruments carried at amortised cost:

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

(b) Financial instruments carried at fair value:

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

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



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

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

A18 Fair value disclosures (continued)

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

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

	Contract / notional amount USD'000	Assets RM'000	(Liabilities) RM'000
<u>Financial assets / (liabilities)</u>			
<u>Level 2</u>			
<u>31.03.2019</u>			
Forward foreign currency contracts	109,500	241	(139)
Forward priced commodity contracts	87,457	24	-
Commodity options	485	2,611	(184)
Commodity swap contracts	269,535	240	(5,837)
Refining margin swap contracts	485,998	179,294	(5,764)
Interest rate swap contracts	122,500	-	(8,718)
	<hr/>	<hr/>	<hr/>
<u>31.12.2018</u>			
Forward foreign currency contracts	100,880	-	(3,557)
Forward priced commodity contracts	54,706	26,209	-
Commodity options	560	3,460	(2,169)
Commodity swap contracts	59,405	22,291	-
Refining margin swap contracts	385,909	236,331	(2,524)
Interest rate swap contracts	137,500	-	(6,329)
	<hr/>	<hr/>	<hr/>

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurement in the current quarter and financial year ended 31 December 2018. The fair values were obtained from published rates of counterparties.



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

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

A19 Borrowings

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

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Term loans and revolving credits (secured)	835,755	1,150,632
Less: Amount repayable within 12 months	(350,250)	(555,095)
Amount repayable after 12 months	485,505	595,537
Currency profile of borrowings:		
- USD	835,755	1,150,632

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



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

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

A20 Changes in liabilities arising from financing activities

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

	RM'000	RM'000
As at		
- 1 January 2019	1,150,632	-
- 1 January 2018	-	1,205,008
Proceeds from borrowings	879,501	2,145,825
Repayment of borrowings (includes interest paid)	(1,188,909)	(2,280,907)
Non-cash changes:		
- Interest accrued	10,349	43,562
- Amortisation of term loan commitment fees	41	15,142
- Foreign exchange difference upon translation to presentation currency	(15,859)	22,002
As at		
- 31 March 2019	835,755	-
- 31 December 2018	-	1,150,632

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

	RM'000	RM'000
As at		
- 1 January 2019, as previously stated	-	-
Effect of transitioning to MFRS 16	36,398	-
As restated	36,398	-
- 1 January 2018	-	-
Repayment of principal portion of lease liability	(1,988)	-
Non-cash changes:		
New lease liability recognised	10,947	-
- Interest accrued	315	-
- Foreign exchange difference upon translation to presentation currency	(553)	-
As at		
- 31 March 2019	45,119	-
- 31 December 2018	-	-



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

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

A21 Cash and cash equivalents

	As at <u>31.03.2019</u> RM'000	As at <u>31.12.2018</u> RM'000
Cash and cash equivalents comprise of:		
Bank balances	83,972	204,880
Less: Restricted cash	(21,346)	(76,847)
	<u>62,626</u>	<u>128,033</u>

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

A22 Capital commitments

Capital commitments as at 31 March 2019 are as follows:

	As at <u>31.03.2019</u> RM'000	As at <u>31.12.2018</u> RM'000
Property, plant and equipment		
Approved and contracted for	741,959	622,680
Approved but not contracted for	<u>105,059</u>	<u>420,238</u>

A23 Company's performance

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



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

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

A24 Current year prospects

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

A25 Related party disclosure

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

	Quarter ended		Cumulative period ended	
	<u>31.03.2019</u>	<u>31.03.2018</u>	<u>31.03.2019</u>	<u>31.03.2018</u>
	RM'000	RM'000	RM'000	RM'000
Transactions with immediate holding company				
- Sale of refined products	<u>46,989</u>	<u>-</u>	<u>46,989</u>	<u>-</u>
- Purchase of refined products and freight charges	<u>(7,002)</u>	<u>-</u>	<u>(7,002)</u>	<u>-</u>
- Central management and administrative charges	<u>(2,650)</u>	<u>-</u>	<u>(2,650)</u>	<u>-</u>
- Technical advisory support	<u>(3,370)</u>	<u>-</u>	<u>(3,370)</u>	<u>-</u>



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

Part B: Additional Information Required by Bursa Malaysia Listing Requirements

B1 Financial review for current quarter and financial period ended

	Quarter/cumulative period-to-date ended			
	<u>31.03.2019</u>	<u>31.03.2018</u>	Variance	
	RM'mil	RM'mil	RM'mil	%
Revenue	2,960	3,061	(101)	-3
Gross profit	184	174	10	6
Profit after taxation	22	87	(65)	-75

The Company recorded revenue of RM3.0 billion for the period ended 31 March 2019, approximately 3% lower than the RM3.1 billion recognised for the same period last year. This was primarily due to lower average product prices in the current quarter of USD70 per barrel, compared to USD76 per barrel in the comparative period. Sales volume in the current quarter was recorded at 10.3 million barrels, marginally above the 10.2 million barrels sold in the same quarter of 2018.

Gross profit for the current quarter was USD4.36 per barrel of products sold, compared to USD4.30 per barrel in the corresponding quarter. Operating margin for the current quarter was weak due to oversupply of products in the region. Gross profit margin was supported by a stockholding gain of USD2.05 per barrel of crude processed (Q1 2018: USD1.46 per barrel), resulting from an uptrend in the market quoted crude price, rising from USD54 per barrel to USD67 per barrel during the quarter.

Manufacturing expenses were slightly higher in the current quarter, in line with higher production volumes. Administrative expenses include business support charges from the parent company. Lower depreciation and amortisation costs reflect the extended useful lives of the refinery assets, based on an assessment carried out in the preceding quarter. Fair value loss on commodity swaps, recognised within 'other operating losses' offset the stockholding gains of RM84.7 million recognised within gross profit. The commodity swaps were entered into to mitigate the volatility in market crude prices. Finance cost for the comparative quarter includes a full amortisation of prepaid borrowing fees, upon refinancing the term loans with the existing borrowing facilities.



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

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

B2 Financial review for current quarter compared with immediately preceding quarter

	<u>31.03.2019</u>	<u>Quarter ended</u> <u>31.12.2018</u>	<u>Variance</u>	
	RM'mil	RM'mil	RM'mil	%
Revenue	2,960	2,513	447	18
Gross profit/(loss)	184	(81)	265	>100
Profit after taxation	22	-	22	100

The Company sold 10.3 million barrels of products in the current quarter compared to 8.2 million barrels recorded in the preceding quarter. The Company only recommenced operations on 21 October 2018, following a scheduled production downtime to deliver the Major Turnaround 2018.

Gross profit in the current quarter includes stockholding gains of USD2.05 per barrel of crude processed whilst the preceding quarter's result takes into account a corresponding loss as crude prices experienced a sharp decline between October 2018 and December 2018. The breakeven result recorded in the previous quarter incorporates a partial reversal of impairment following the reassessment of the refinery assets' recoverable amount.



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

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

B3 Current year prospects

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

B4 Status of Project Euro4M Mogas

The construction of the new Euro4M Mogas processing unit is underway and the Company continues to focus on the completion of the unit to deliver compliant products to its customers.

B5 Profit forecast

The Company does 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 2019