

RP CHEMICALS (MALAYSIA) SDN. BHD.
(Incorporated in Malaysia)
Financial Statements
For the Year ended 31st December, 2018

Independent Auditors' Report to the Member of RP Chemicals (Malaysia) Sdn. Bhd. (Incorporated in Malaysia)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of RP Chemicals (Malaysia) Sdn. Bhd., which comprise the statement of financial position as at 31 December 2018, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 4 to 29.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Company and our auditors' report thereon.

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Independent Auditors' Report to the Member of RP Chemicals (Malaysia) Sdn. Bhd. (Incorporated in Malaysia) (cont'd.)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 2016 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 matters

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

Ernst & Young

AF: 0039

Chartered Accountants

Sandra Segaran a/l Muniandy@Krishnan

No. 02882/01/2021 J

Chartered Accountant

Kuantan, Pahang Darul Makmur, Malaysia

29 March 2019

Statement of comprehensive income

For the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
INCOME			
Revenue from contracts with customers	4	296,780	270,817
Other income		3,720	1,274
TOTAL REVENUE		<u>300,500</u>	<u>272,091</u>
EXPENDITURE			
Cost of materials consumed		(68,369)	(51,795)
Changes in inventories of work-in-progress		766	(39)
Employee benefits expense	5	(23,413)	(23,123)
Finance cost	6	—	(74,135)
Depreciation and amortisation expense		(42,093)	(42,695)
Other expenses		(153,462)	(143,666)
TOTAL EXPENSES		<u>(286,571)</u>	<u>(335,453)</u>
Profit/(loss) before tax	7	13,929	(63,362)
Income tax expense	8	(117)	(59)
Profit/(loss) net of tax		<u>13,812</u>	<u>(63,421)</u>

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Statement of financial position

As at 31 December 2018

	Note	2018 RM'000	2017 RM'000
Assets			
Non-current assets			
Property, plant and equipment	9	296,211	326,988
Land use rights	10	13,881	14,069
Deferred tax assets	11	79,575	79,575
		<u>389,667</u>	<u>420,632</u>
Current assets			
Inventories	12	48,431	43,851
Trade and other receivables	13	71,078	32,083
Prepayments		229	218
Cash and bank balances	14	27,264	32,755
		<u>147,002</u>	<u>108,907</u>
Total assets		<u>536,669</u>	<u>529,539</u>
Equity and liabilities			
Current liability			
Trade and other payables	15	45,825	52,490
Tax payable		7	24
		<u>45,832</u>	<u>52,514</u>
Net current assets		<u>101,170</u>	<u>56,393</u>
Non-current liability			
Loans and borrowings	16	-	1,215,514
Total liabilities		<u>45,832</u>	<u>1,268,028</u>
Net assets/(liabilities)		<u>490,837</u>	<u>(738,489)</u>
Equity attributable to owner of the Company			
Share capital	17	1,574,144	358,644
Other reserve	18	160,751	160,737
Accumulated losses		(1,244,058)	(1,257,870)
Total equity		<u>490,837</u>	<u>(738,489)</u>
Total equity and liabilities		<u>536,669</u>	<u>529,539</u>

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Statement of changes in equity

For the financial year ended 31 December 2018

	Note	Total equity RM'000	-Non-Distributable-		Accumulated losses RM'000
			Share capital RM'000	Other reserve RM'000	
2018					
Opening balance at 1 January 2018		(738,489)	358,644	160,737	(1,257,870)
Total comprehensive income		13,812	-	-	13,812
<u>Transaction with owner</u>					
Effects of variation of rights of redeemable preference shares	17	798,000	798,000	-	-
Issuance of shares for offsetting cumulative dividend of redeemable preference shares	17	417,500	417,500	-	-
Waiver of cumulative dividend of redeemable preference shares	18	14	-	14	-
Total transaction with owner		<u>1,215,514</u>	<u>1,215,500</u>	<u>14</u>	<u>-</u>
Closing balance at 31 December 2018		<u>490,837</u>	<u>1,574,144</u>	<u>160,751</u>	<u>(1,244,058)</u>
2017					
Opening balance at 1 January 2017		(675,068)	358,644	160,737	(1,194,449)
Total comprehensive loss		<u>(63,421)</u>	<u>-</u>	<u>-</u>	<u>(63,421)</u>
Closing balance at 31 December 2017		<u>(738,489)</u>	<u>358,644</u>	<u>160,737</u>	<u>(1,257,870)</u>

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Statement of cash flows

For the financial year ended 31 December 2018

	Note	2018 RM'000	2017 RM'000
Operating activities			
Profit/(loss) before tax		13,929	(63,362)
Adjustments for:			
Depreciation of property, plant and equipment	7	41,905	42,507
Amortisation of land use rights	7	188	188
Gain on disposal of property, plant and equipment	7	-	(10)
Property, plant and equipment written off	7	-	207
Bad debts written off	7	-	36
(Reversal of)/provision for obsolescence of spares	7	(19)	1,144
Unrealised foreign exchange (gain)/loss		(250)	252
Redeemable preferential share dividends	6	-	74,135
Interest income		(366)	(246)
Total adjustments		<u>41,458</u>	<u>118,213</u>
Operating cash flows before changes in working capital		<u>55,387</u>	<u>54,851</u>
Changes in working capital			
Inventories		(4,561)	(470)
Trade and other receivables		(38,747)	(11,179)
Prepayments		(11)	50
Trade and other payables		<u>(6,710)</u>	<u>6,911</u>
Total changes in working capital		<u>(50,029)</u>	<u>(4,688)</u>
Cash flows from operations		5,358	50,163
Income taxes paid		<u>(134)</u>	<u>(33)</u>
Net cash flows from operating activities		<u>5,224</u>	<u>50,130</u>
Investing activities			
Purchase of property, plant and equipment	9	(11,128)	(22,974)
Proceeds from disposal of property, plant and equipment		-	14
Interest received		<u>366</u>	<u>246</u>
Net cash flows used in investing activities		<u>(10,762)</u>	<u>(22,714)</u>
Net (decrease)/increase in cash and cash equivalents		(5,538)	27,416
Effect of exchange rate changes on cash and cash equivalents		47	(61)
Cash and cash equivalents at 1 January		<u>32,755</u>	<u>5,400</u>
Cash and cash equivalents at 31 December	14	<u>27,264</u>	<u>32,755</u>

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

Notes to the financial statements for the financial year ended 31 December 2018

1. Corporate information

The Company is a private limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Company has changed from Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan to Lot 116, Gebeng Industrial Estate, Balok, 26080 Kuantan, Pahang Darul Makmur, Malaysia from 1 January 2019.

The principal place of business of the Company is located at Lot 116, Gebeng Industrial Estate, Balok, 26080 Kuantan, Pahang Darul Makmur, Malaysia.

The holding company is Reliance Industries (Middle East) DMCC, a limited liability company incorporated in United Arab Emirates. The directors regard Reliance Industries Limited, a company incorporated in India, as the ultimate holding company.

The principal activities of the Company are producing, marketing, selling of Purified Terephthalic Acid (“PTA”) and its by-product and providing manufacturing services.

There have been no significant changes in the nature of the principal activities during the financial year.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

The financial statements of the Company are prepared under the historical cost basis except as disclosed in this summary of significant accounting policies.

The financial statements are presented in Ringgit Malaysia (“RM”) and all values are rounded to the nearest thousand (RM’000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2018, the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2018.

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
MFRS 2: <i>Classification and Measurement of Share-based Payment (Amendment to MFRS 2)</i>	1 January 2018
MFRS 9: <i>Financial Instruments</i>	1 January 2018
MFRS 15: <i>Revenue from Contracts with Customers</i>	1 January 2018
MFRS 140: <i>Transfers of Investment Property (Amendments to MFRS 140)</i>	1 January 2018
Annual Improvements to MFRSs 2014 – 2016 Cycle	
- Amendments to MFRS 1: <i>First-time Adoption of Malaysian Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters</i>	1 January 2018
- Amendments to MFRS 128: <i>Investment in Associates and Joint Venture: Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice</i>	1 January 2018
IC Interpretation 22: <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018

The new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2018 do not give rise to any significant effects on the financial statements of the Company.

Notes to the financial statements for the financial year ended 31 December 2018

2.3 Standards and interpretations issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
MFRS 9: <i>Prepayment Features with Negative Compensation (Amendments to MFRS 9)</i>	1 January 2019
MFRS 16: <i>Leases</i>	1 January 2019
MFRS 128: <i>Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)</i>	1 January 2019
Annual Improvements to MFRSs 2015 – 2017 Cycle	
- <i>Amendments to MFRS 3: Business Combinations: Previously held interest in a joint operation</i>	1 January 2019
- <i>Amendments to MFRS 11: Joint Arrangements: Previously held interest in a joint operation</i>	1 January 2019
- <i>Amendments to MFRS 112: Income Taxes: Income tax consequences of payments on financial instruments classified as equity</i>	1 January 2019
- <i>Amendments to MFRS 123: Borrowing Costs: Borrowing costs eligible for capitalisation</i>	1 January 2019
IC Interpretation 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
<i>Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 101: Presentation of Financial Statements: Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 3: Business Combinations: Definition of a Business</i>	1 January 2020
MFRS 17: <i>Insurance Contracts</i>	1 January 2021
<i>Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Deferred

The directors expect that the adoption of the above amendments and standards will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 16: Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Notes to the financial statements for the financial year ended 31 December 2018

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The application of this standard is not expected to have any impact on the company's financial statement.

2.4 Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.5 Foreign currency

(a) Functional and presentation currency

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

(b) Foreign currency transactions

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss.

2.6 Fair value measurement

The Company measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 22.

Notes to the financial statements for the financial year ended 31 December 2018

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- (i) In the principal market for the asset or liability, or
- (ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.7 Revenue recognition

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer. Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, net of returns, rebates and discounts. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

(a) Rendering of manufacturing services

Revenue from the provision of tolling services is recognised at the point in time in which the manufacturing activities are performed. There is no element of financing present as the sales is made with credit terms of 60 days.

(b) Sale of steam

Revenue is recognised at the point in time when control of the steam has transferred, being when the steam is delivered through the first flange at the customer's fence. The price of the steam is based on agreed transaction price by both parties. The volume is based on the actual volume transferred as recorded in the meter installed at the Company's plant site.

(c) Interest income

Interest income is recorded using the effective interest rate.

Notes to the financial statements for the financial year ended 31 December 2018

2.8 Income taxes

(a) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(c) Goods and Services Tax (“GST”)

The net amount of GST, being the difference between output and input of GST, payable to or receivable from the respective authorities at the reporting date, is included in trade and other payables or trade and other receivables in the statement of financial position.

Legislation to implement Malaysia’s new sales tax and service tax (“SST”) and repeal the GST has received Royal Assent and was published in the official gazette on 28 August 2018 (the Sales Tax Act, the Service Tax Act and the GST Repeal Act). The GST ended on 31 August 2018, and the SST applies as from 1 September 2018.

2.9 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property and equipment is recognised as an asset if, only if, it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold land improvements	20 years
Buildings	40 years
Plant and machinery	8 - 30 years
Motor vehicles	3 - 5 years

Notes to the financial statements for the financial year ended 31 December 2018

Electronic data processing (“EDP”) equipment	3 years
Office equipment	10 years
Furniture and fittings	10 years
Leasehold property improvements	40 years

Construction in progress is not depreciated as this asset is not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.10 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over the lease term of 99 years.

2.11 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Company makes an estimate of the asset’s recoverable amount.

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

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

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

2.12 Financial instruments

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

(i) Financial assets

Recognition and initial measurement

Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, any directly attributable transaction costs.

Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, whereby no adjustment is required if the period between performance and payment is one (1) year or less, are measured at the transaction price determined under MFRS 15: *Revenue from Contract with Customers* (“MFRS 15”), upon adoption of MFRS 9: *Financial instruments* (“MFRS 9”).

Notes to the financial statements for the financial year ended 31 December 2018

Prior to 1 January 2018, trade receivables are carried at amortised cost.

Upon adoption of MFRS 9, trade receivables that do not contain a significant financing component or if the period between performance and payment is one (1) year or less under practical expedient of MFRS 15, are measured at the transaction price determined under MFRS 15.

Purchases or sales under a contract whose terms require delivery of financial assets within a time frame established by regulation or convention in the marketplace concerned (“regular way purchases”) are recognised on the trade date i.e. the date that the Company commit to purchase or sell the financial asset.

Fair value adjustments on shareholder’s loans and advances at initial recognition, if any, are added to the carrying value of investments in the Company’s financial statements.

Classification and subsequent measurement

The Company determines the classification of financial assets at initial recognition.

In previous years, financial assets are classified as measured at: financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate.

Upon adoption of MFRS 9, financial assets are classified as measured at: amortised cost, fair value through other comprehensive income (“FVTOCI”) and FVTPL, as appropriate.

The classification of financial assets at initial recognition depends on the financial asset’s contractual cash flow characteristics evaluated using the Solely Payments of Principal and Interest (“SPPI”) assessment and the Company’s business model for managing them.

Solely Payments of Principal and Interest (“SPPI”) assessment

For the purpose of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contract cash flows such that it would not meet this condition.

The Company also considers terms that limit the Company’s claim to cash flows from specified assets, contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable rate features, and prepayment and extension features.

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered include the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management’s strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows, or realising cash flows through the sale of assets.

Other information considered includes how the performance of the portfolio is evaluated and reported to the Company’s management, the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed, and the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets commencing in the current financial year are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Notes to the financial statements for the financial year ended 31 December 2018

Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as FVTPL. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method (see Note 2.12(iv)). Interest income and foreign exchange gains and losses are recognised in profit or loss.

Fair value through other comprehensive income (“FVTOCI”)

This category comprises debt instruments where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The debt instruments are not designated as at FVTPL.

FVTOCI category also comprises investment in equity that are not held for trading, and the Company irrevocably elect to present subsequent changes in the investment’s fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial assets categorised as FVTOCI are subsequently measured at fair value with unrealised gains and losses recognised directly in other comprehensive income and accumulated under FVTOCI reserve in equity. For debt instruments, when the investment is derecognised or determined to be impaired, the cumulative gain or loss previously recorded in equity is reclassified to the profit or loss. For equity instruments, the gains or losses are never reclassified to profit or loss.

Financial assets at fair value through profit or loss (“FVTPL”)

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets categorised as FVTPL are subsequently measured at their fair value with gains or losses recognised in the profit or loss. The methods used to measure fair value are stated in Note 2.6.

All financial assets, except for those measured at FVTPL and equity investments measured at FVTOCI, are subject to impairment (see Note 2.13(i)).

In making the assessment, the Company considers terms that limit the Company’s claim to cash flows from specified assets, contingent events that would change the amount or timing of cash flows, terms that may adjust the contractual coupon rate, including variable rate features, and prepayment and extension features.

(ii) **Financial liabilities**

In previous years, financial liabilities are classified as financial liabilities at fair value through profit or loss or at amortised cost, loans and borrowings (i.e. financial liabilities measured at amortised cost), as appropriate. Financial liabilities are recognised initially at fair value less, in the case of at amortised cost loans and borrowings, any directly attributable transaction costs.

Upon adoption of MFRS 9 in the current financial year, financial liabilities are classified as measured at: FVTPL or at amortised cost, as appropriate. Financial liabilities are recognised initially at fair value less, in the case of at amortised cost, any directly attributable transaction costs.

The Company determines the classification of financial liabilities at initial recognition.

Subsequent measurement

Financial liabilities at fair value through profit or loss (“FVTPL”)

FVTPL category comprises financial liabilities that are derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument), contingent consideration in a business combination and financial liabilities that are specifically designated into this category upon initial recognition.

Financial liabilities categorised as FVTPL are subsequently measured at their fair value with gains or losses recognised in the profit or loss.

Notes to the financial statements for the financial year ended 31 December 2018

Amortised cost

Subsequent to initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method (see Note 2.12(iv)).

Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

(iv) Amortised cost of financial instruments

Amortised cost is computed using the effective interest method. This method uses effective interest rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial instrument. Amortised cost takes into account any transaction costs and any discount or premium on settlement.

(v) Derecognition of financial instruments

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or, the Company has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement without retaining control of the asset or substantially all the risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the profit or loss, except for equity investments at FVTOCI where the gain or loss are recognised in other comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liabilities extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the profit or loss. In the case of waiver of debt from owners, the gain is recognised in equity as capital reserve.

2.13 Impairment

(i) Financial assets, contract assets and finance lease receivable

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income (“FVTOCI”), contract assets and finance lease receivables.

The Company measures loss allowances on debt securities at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, other debt securities for which credit risk has not increased significantly since initial recognition and finance lease receivables, which are measured as 12 month expected credit loss.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is past due.

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security.

Notes to the financial statements for the financial year ended 31 December 2018

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, while 12 month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of expected credit losses (“ECL”)

Expected credit losses are measured as a function of probability of default and loss given default. Probability of default is the likelihood of default over a particular time horizon and is derived using external credit ratings, if they are available, or internal credit ratings based on quantitative or qualitative information for the counterparty. Loss given default is the assumption of the proportion of financial asset that cannot be recovered by conversion of collateral to cash or by legal process, and is assessed based on the Company’s historical experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

An impairment loss in respect of debt investments measured at fair value through other comprehensive income is recognised in profit or loss and the allowance account is recognised in other comprehensive income.

(ii) Other assets

The carrying amounts of other assets, other than inventories, deferred tax assets and non-current assets or disposal groups classified as held for sale are reviewed at each reporting date to determine whether there is any indication of impairment.

If any such indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

A cash-generating unit is the smallest identifiable asset group that generates cash flows from continuing use that are largely independent from other assets and groups. An impairment loss recognised in respect of a cash-generating unit is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset’s fair value less cost to sell and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed in the subsequent period. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.14 Inventories

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

Costs incurred in bringing the inventories to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a first in, first out basis.
- Work-in-progress: costs of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand.

Notes to the financial statements for the financial year ended 31 December 2018

2.16 Redeemable preference shares (“RPS”)

The redeemable preference shares are recorded at the amount of proceeds received, net of transaction costs.

2.17 Borrowing costs

Borrowing costs are recognised in profit or loss in the period they are incurred.

Borrowing costs consist of interest that the Company incurred in connection with the borrowing of funds.

2.18 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.19 Employee benefits

Defined contribution plans

The Company participates in the national pension scheme as defined by the laws of the country in which it has operations. The Company makes contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

2.20 Operating leases

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.21 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Company.

Contingent liabilities and assets are not recognised in the statement of financial position of the Company.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Company’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Critical judgements made in applying accounting policies

There were no significant judgements made in applying the accounting policies of the Company which may have significant effects of the amounts recognised in the financial statements.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Notes to the financial statements for the financial year ended 31 December 2018

(a) Useful lives of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and machinery to be within 8 to 30 years. These are common life expectancies applied in the Purified Terephthalic Acid manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Company's plant and machinery at the reporting date is disclosed in Note 9.

(b) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Company's loans and receivables at the reporting date is disclosed in Note 13.

(c) Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 22 for further disclosures.

(d) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, unused reinvestment allowance and unutilised investment tax allowance to the extent that it is probable that taxable profit will be available against which the losses and allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

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

The carrying value of recognised deferred tax assets of the Company at 31 December 2018 was RM79,575,000 (2017: RM79,575,000).

The total carrying value of recognised tax losses and investment tax allowance of the Company was RM518,625,000 (2017: RM542,904,000) and the unrecognised tax losses of the Company was RM25,487,000 (2017: RM25,285,000).

4. Revenue from contracts with customers

	2018	2017
	RM'000	RM'000
Manufacturing fees	294,101	270,817
Sale of steam	2,679	-
	<u>296,780</u>	<u>270,817</u>

Notes to the financial statements for the financial year ended 31 December 2018

5. Employee benefits expense

	2018 RM'000	2017 RM'000
Wages and salaries	18,501	18,402
Contributions to defined contribution plan	2,784	2,759
Social security contributions	138	127
Other benefits	1,990	1,835
	<u>23,413</u>	<u>23,123</u>

Included in employee benefits expense of the Company is director's remuneration amounting to RM748,000 (2017: RM760,000).

6. Finance cost

	2018 RM'000	2017 RM'000
Redeemable preferential share dividends (2017: 9.29% per annum)	<u>-</u>	<u>74,135</u>

7. Profit/(loss) before tax

The following items have been included in arriving at profit/(loss) before tax:

	2018 RM'000	2017 RM'000
Auditors' remuneration	90	90
Employee benefits expense (Note 5)	23,413	23,123
Depreciation of property, plant and equipment (Note 9)	41,905	42,507
Amortisation of land use rights (Note 10)	188	188
Rental of equipment	1,042	729
Rental of land	493	482
Property, plant and equipment written off	-	207
Bad debts written off	-	36
(Reversal of)/provision for obsolescence of spares	(19)	1,144
Net foreign exchange (gain)/loss	(250)	446
Gain on disposal of property, plant and equipment	<u>-</u>	<u>(10)</u>

8. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 RM'000	2017 RM'000
Malaysian income tax		
- Current income tax	113	59
- Under provision in respect of previous years	<u>4</u>	<u>-</u>
Income tax expense reported in the statement of comprehensive income	<u>117</u>	<u>59</u>

Notes to the financial statements for the financial year ended 31 December 2018

Reconciliation between tax expense and accounting profit/(loss)

Reconciliation of tax expense and the accounting profit/(loss) multiplied by corporate tax rate for 2018 and 2017 are as follows:

	2018	2017
	RM'000	RM'000
Accounting profit/(loss) before tax	13,929	(63,362)
Tax at statutory tax rate of 24% (2017: 24%)	3,343	(15,207)
Adjustments:		
Non-deductible expenses	143	18,020
Income not subject to taxation	(2)	(5)
Benefits from previously unrecognised tax losses	(3,371)	(2,933)
Deferred tax assets not recognised in respect of unused tax losses	-	184
Under provision of income tax in respect of previous year	4	-
Income tax expense reported in the statement of comprehensive income	<u>117</u>	<u>59</u>

The income tax is calculated at the statutory tax rate of 24% (2017: 24%) of the estimated assessable profit for the year.

Notes to the financial statements for the financial year ended 31 December 2018

9. Property, plant and equipment

	Leasehold land improvements RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	EDP equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Leasehold property improvements RM'000	Construction in progress RM'000	Total RM'000
Cost:										
At 1 January 2017	4,573	22,862	1,197,620	14,328	14,063	3,601	4,548	10,520	77,513	1,349,628
Additions	-	-	474	-	34	16	9	-	22,441	22,974
Disposals	-	-	(5)	(277)	-	-	(1)	-	-	(283)
Write offs	-	-	(29,328)	-	(7,530)	(92)	(103)	-	-	(37,053)
Transfer	-	-	46,813	-	-	-	-	-	(46,813)	-
At 31 December 2017 and 1 January 2018	4,573	22,862	1,215,574	14,051	6,567	3,525	4,453	10,520	53,141	1,335,266
Additions	-	-	307	184	174	9	-	-	10,454	11,128
Transfer	-	-	30,100	-	-	-	-	-	(30,100)	-
At 31 December 2018	4,573	22,862	1,245,981	14,235	6,741	3,534	4,453	10,520	33,495	1,346,394
Accumulated depreciation:										
At 1 January 2017	4,393	11,714	947,996	14,324	13,852	2,936	4,469	3,212	-	1,002,896
Depreciation charge for the year (Note 7)	173	571	41,228	1	119	123	29	263	-	42,507
Disposals	-	-	(2)	(277)	-	-	-	-	-	(279)
Write offs	-	-	(29,123)	-	(7,530)	(90)	(103)	-	-	(36,846)
At 31 December 2017 and 1 January 2018	4,566	12,285	960,099	14,048	6,441	2,969	4,395	3,475	-	1,008,278
Depreciation charge for the year (Note 7)	6	571	40,790	22	110	121	22	263	-	41,905
At 31 December 2018	4,572	12,856	1,000,889	14,070	6,551	3,090	4,417	3,738	-	1,050,183
Net carrying amount:										
At 31 December 2017	7	10,577	255,475	3	126	556	58	7,045	53,141	326,988
At 31 December 2018	1	10,006	245,092	165	190	444	36	6,782	33,495	296,211

10. Land use rights

	2018 RM'000	2017 RM'000
Cost:		
At 1 January/31 December	18,574	18,574
Accumulated amortisation:		
At 1 January	4,505	4,317
Amortisation for the year (Note 7)	188	188
At 31 December	4,693	4,505
Net carrying amount	13,881	14,069

Notes to the financial statements for the financial year ended 31 December 2018

The Company has land use rights over a plot of state-owned land in the state of Pahang Darul Makmur where the Company's manufacturing and storage facilities reside. The land use rights are not transferable and have a remaining tenure of 75 years (2017: 76 years).

11. Deferred tax

Deferred income tax as at 31 December relates to the following:

	As at 31 December				
	As at 1 January 2017 RM'000	Recognised in profit or loss RM'000	2017/ 1 January 2018 RM'000	Recognised in profit or loss RM'000	As at 31 December 2018 RM'000
Deferred tax liabilities:					
Property, plant and equipment	(58,553)	5,167	(53,386)	5,010	(48,376)
	<u>(58,553)</u>	<u>5,167</u>	<u>(53,386)</u>	<u>5,010</u>	<u>(48,376)</u>
Deferred tax assets:					
Unutilised tax losses	70,010	2,963	72,973	(49)	72,924
Unutilised investment tax allowance	66,736	(9,412)	57,324	(5,778)	51,546
Others	1,382	1,282	2,664	817	3,481
	<u>138,128</u>	<u>(5,167)</u>	<u>132,961</u>	<u>(5,010)</u>	<u>127,951</u>
	<u>79,575</u>	<u>-</u>	<u>79,575</u>	<u>-</u>	<u>79,575</u>

	2018 RM'000	2017 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	127,951	132,961
Deferred tax liabilities	<u>(48,376)</u>	<u>(53,386)</u>
	<u>79,575</u>	<u>79,575</u>

Deferred tax assets have not been recognised in respect of the unutilised tax losses of RM25,487,000 (2017: RM25,285,000) due to uncertainty of its recoverability. The availability are subject to no substantial changes in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

12. Inventories

	2018 RM'000	2017 RM'000
Cost		
Raw materials	1,625	1,692
Chemicals and catalyst	13,297	8,046
Work-in-progress	1,296	530
Materials and spares	<u>33,338</u>	<u>34,727</u>
	49,556	44,995
Less: Provision for obsolete spares	<u>(1,125)</u>	<u>(1,144)</u>
Inventories, net	<u>48,431</u>	<u>43,851</u>

Notes to the financial statements for the financial year ended 31 December 2018**13. Trade and other receivables**

	2018	2017
	RM'000	RM'000
Current		
Trade receivables		
Third parties	427	-
Related company	67,457	20,127
	<u>67,884</u>	<u>20,127</u>
Other receivables		
Deposits	185	213
Other receivables	5,073	13,807
	5,258	14,020
Less: Allowance for impairment	<u>(2,064)</u>	<u>(2,064)</u>
Other receivables, net	<u>3,194</u>	<u>11,956</u>
Total trade and other receivables	71,078	32,083
Add: Cash and bank balances (Note 14)	<u>27,264</u>	<u>32,755</u>
Total loans and receivables	<u>98,342</u>	<u>64,838</u>

Trade receivables

Trade receivables are non-interest bearing and is generally on 30 to 60 days (2017: 7 days) term.

The Company's trade receivables are neither past due nor impaired at the reporting date.

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Company and have not been renegotiated during the financial year.

Other receivables that are impaired

At the reporting date, the Company has provided an allowance of RM2,064,000 (2017: RM2,064,000) for impairment of the advance to a corporation with a nominal amount of RM3,226,000 (2017: RM3,221,000). This corporation has not commenced operations since the date of its incorporation.

There has been no movement in this allowance account for the financial year ended 31 December 2018 and 2017.

14. Cash and bank balances

	2018	2017
	RM'000	RM'000
Cash at banks and in hand	<u>27,264</u>	<u>32,755</u>

Cash at banks earns interest at fixed rate based on end-of-day available balance.

Notes to the financial statements for the financial year ended 31 December 2018

15. Trade and other payables

	2018 RM'000	2017 RM'000
Current		
Trade payables		
Third parties	8,916	9,252
Other payables		
Accrued and provision operating expenses	20,477	15,976
Other payables	16,432	27,262
	<u>36,909</u>	<u>43,238</u>
Total trade and other payables	45,825	52,490
Add: Loans and borrowings (Note 16)	-	1,215,514
Total financial liabilities carried at amortised cost	<u>45,825</u>	<u>1,268,004</u>

(a) Trade payables

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 60 days (2017: 30 to 60 days) term.

(b) Other payables

These amounts are non-interest bearing. Other payables are normally settled on cash before delivery to 60 days (2017: cash before delivery to 60 days) term.

16. Loans and borrowings

	2018 RM'000	2017 RM'000
Non-current		
Redeemable preference shares	-	1,215,514

The amounts recognised in the statement of financial position of the Company may be analysed as follows:

	2018 RM'000	2017 RM'000
Article 4B Class A redeemable preference shares:		
Nominal value - issued and fully paid		
At 1 January	80	80
Reclassified to share capital during the year	(80)	-
At 31 December	<u>-</u>	<u>80</u>
Share premium		
At 1 January	797,920	797,920
Reclassified to share capital during the year	(797,920)	-
At 31 December	<u>-</u>	<u>797,920</u>
Accrued dividend		
At 1 January	417,514	343,379
Increase during the year	-	74,135
Waived during the year	(14)	-
Offsetting through issuance of redeemable preference shares	(417,500)	-
At 31 December	<u>-</u>	<u>417,514</u>
Total redeemable preference shares	<u>-</u>	<u>1,215,514</u>

Notes to the financial statements for the financial year ended 31 December 2018

In prior years, under MFRS 132 on financial instruments, the Redeemable Preference Shares together with the Share Premium on issue and the dividend accruing are treated as a financial liability.

During the year 2018, the Company has obtained approval from the holder of redeemable preference shares to vary the rights of redeemable preference shares.

As a results of variation of the rights, the redeemable preference shares together with the share premium have been reclassified as an equity instrument.

17. Share capital

	Amount	
	2018 RM'000	2017 RM'000
Issued and fully paid:		
Ordinary shares		
At 1 January/31 December	358,644	358,644
Redeemable preference shares		
At 1 January	-	-
Allotment during the year	417,500	-
Reclassified from loans and borrowings during the year	798,000	-
At 31 December	1,215,500	-
Total share capital	<u>1,574,144</u>	<u>358,644</u>

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

During the year 2018, the Company has obtained approval from the holders of Class A redeemable preference shares to vary the rights of Class A redeemable preference shares as follow:

- The holders of RPS have a right to receive out of profits of the Company a non-cumulative RPS dividends at a rate as may be determined by the Directors from time to time, in priority over the ordinary shares.
- The Company shall have the rights, at any time to redeem the whole or part of the total issuance of the RPS by giving written notice to the holder of the RPS stating the Company's intention to redeem, number of Class A RPS to be redeemed and the redemption date which shall be at least 30 days from the date of the written notice.

As a results of variation of the rights, the redeemable preference shares together with the share premium have been reclassified as an equity instrument.

In September 2018, the Company had issued 417,500,000 redeemable preference shares total amounting RM417.50 million to Reliance Industries (Middle East) DMCC, a wholly-owned subsidiary of Reliance Industries Limited through offsetting of cumulative preferential dividend for the period from 16 May 2012 to 31 December 2017.

18. Other reserve

	2018 RM'000	2017 RM'000
At 1 January	160,737	160,737
Waiver of cumulative dividend of redeemable preference shares during the year	14	-
At 31 December	<u>160,751</u>	<u>160,737</u>

The other reserve represents waiver of cumulative dividend premium for Article 4A and Article 4B Class A redeemable preference shares and waiver of cumulative dividend for Article 4B Class A redeemable preference shares.

Notes to the financial statements for the financial year ended 31 December 2018

19. Related party transactions

- (a) List of related parties where control exists and related parties with whom transactions have taken place and relationships is as follows:

Name of the related parties	Relationship
Reliance Industries Limited	Ultimate holding company
Reliance Industries (Middle East) DMCC	Immediate holding company
Recron (Malaysia) Sdn. Bhd.	Fellow subsidiary

- (b) Significant transactions between the Company and related parties are as follows:

	2018 RM'000	2017 RM'000
With fellow subsidiary:		
Rendering of manufacturing services	294,101	270,817
Recovery of cost	<u>-</u>	<u>(237)</u>
With ultimate holding company:		
Recovery of cost	<u>(129)</u>	<u>-</u>

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on arm's length basis. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivable or payable. For the year ended 31 December 2018 and 2017, the Company has not recorded any impairment of receivables relating to amounts owed by a related party. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

- (c) **Compensation of key management personnel**

The remuneration of the director during the year was disclosed in Note 5.

20. Capital commitments

Capital expenditure as at the reporting date on property, plant and equipment is as follows:

	2018 RM'000	2017 RM'000
Approved and contracted for	1,520	8,099
Approved but not contracted for	<u>5,869</u>	<u>4,558</u>
	<u>7,389</u>	<u>12,657</u>

21. Contingent liability

As at 31 December 2018, the Company's total amount of bank guarantees to third parties was RM11,115,000 (2017: RM10,885,000).

22. Fair value of financial instruments

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Trade and other receivables (current)	13
Trade and other payables (current)	15
Loans and borrowings (non-current)	16

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

Notes to the financial statements for the financial year ended 31 December 2018

23. Financial risk management objectives and policies

The Company is exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Company reviews and agrees policies and procedures for the management of these risks. It is, and has been throughout the current and previous financial year, the Company's policy that no derivatives shall be undertaken. The Company does not apply hedge accounting.

The following sections provide details regarding the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets which comprises of cash and bank balances, the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Company trades only with recognised and creditworthy related party. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

Exposure to credit risk

As at 31 December 2018, the Company's maximum exposure to credit risk is only represented by the carrying amount of loans and receivables financial assets recognised in the statement of financial position.

Credit risk concentration profile

As at 31 December 2018, the credit risk concentration profile of the Company's trade receivables is approximately 99% (2017: 100%) due from a related company located in Malaysia.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 13. Deposits with banks that are neither past due nor impaired are placed with or entered into with reputable financial institutions with high credit ratings and no history of default.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of revolving credit facility and maintaining sufficient level of cash.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

	On demand or within one year RM'000	Over one year RM'000	Total RM'000
2018			
Financial liabilities:			
Trade and other payables, representing total undiscounted financial liabilities	45,825	-	45,825
2017			
Financial liabilities:			
Trade and other payables	52,490	-	52,490
Loans and borrowings	-	1,215,514	1,215,514
Total undiscounted financial liabilities	52,490	1,215,514	1,268,004

Notes to the financial statements for the financial year ended 31 December 2018

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates.

As the Company have no significant interest bearing financial assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign currency risk

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

The Company has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the functional currency of Company, RM. The foreign currency in which these transactions are denominated is mainly United States Dollars ("USD").

1% (2017: 100%) of the Company's sales and 7% (2017: 17%) of the Company's purchases are denominated in foreign currencies.

The Company also holds cash and cash equivalents denominated in USD currency for working capital purposes. At the reporting date, such USD currency balances amount to RM144,000 (2017: RM1,323,000).

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's profit/(loss) net of tax to a reasonably possible change in the USD exchange rate against the functional currency of the Company, with all other variables held constant.

		Profit/(loss) net of tax	
		2018	2017
		RM'000	RM'000
USD/RM	- strengthened 3% (2017: 3%)	471	(6,628)
	- weakened 3% (2017: 3%)	<u>(471)</u>	<u>6,628</u>

25. Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the shareholder value.

The Company is not subject to any externally imposed capital requirements.

The Company monitors capital based on Return on Average Capital Employed ("ROACE"), which is profit net of tax adjusted for cumulative preferential dividends as a percentage of the average capital employed for the year. Capital employed is represented as total assets less current liabilities.

	Note	2018	2017
		RM'000	RM'000
Profit/(loss) net of tax		13,812	(63,421)
Add: Cumulative preferential dividends	6	<u>-</u>	<u>74,135</u>
ROACE numerator		<u>13,812</u>	<u>10,714</u>
Capital employed - opening		477,025	466,311
Capital employed - closing		<u>490,837</u>	<u>477,025</u>
Capital employed - average		<u>483,931</u>	<u>471,668</u>
ROACE		<u>3%</u>	<u>2%</u>

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 2017.

26. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the directors on 29 March 2019.