

RP CHEMICALS (MALAYSIA) SDN. BHD.
Financial Statements
for the year ended 31st December, 2019

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 2019 of the Company, 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 8 to 36.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and cash flows of the Company 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 the financial statements 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.

Independent auditors' report to the member of RP Chemicals (Malaysia) Sdn. Bhd. (Incorporated in Malaysia) (cont'd.)

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.
- 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.

Other matters

This report is made solely to the member 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 PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Tan Shium Jye
No. 02991/05/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
14 May 2020

Statement of comprehensive income

For the financial year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
INCOME			
Revenue from contracts with customers	4	301,570	296,780
Other income		<u>2,960</u>	<u>3,720</u>
TOTAL INCOME		<u>304,530</u>	<u>300,500</u>
EXPENSES			
Cost of materials consumed		(49,680)	(68,369)
Changes in inventories of work-in-progress		(814)	766
Employee benefits expense	5	(24,007)	(23,413)
Finance cost	6	(1,660)	-
Depreciation and amortisation expense		(54,037)	(42,093)
Other expenses		<u>(159,232)</u>	<u>(153,462)</u>
TOTAL EXPENSES		<u>(289,430)</u>	<u>(286,571)</u>
Profit before tax	7	15,100	13,929
Income tax expense	8	<u>(221)</u>	<u>(117)</u>
Profit net of tax		<u>14,879</u>	<u>13,812</u>

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

Statement of financial position

As at 31 December 2019

	Note	2019 RM'000	2018 RM'000
Assets			
Non-current assets			
Property, plant and equipment	9	269,780	296,211
Land use rights	10	-	13,881
Right-of-use assets	11	47,703	-
Deferred tax assets	12	79,575	79,575
Total non-current assets		<u>397,058</u>	<u>389,667</u>
Current assets			
Inventories	13	46,727	48,431
Trade and other receivables	14	110,201	71,078
Prepayments		241	229
Cash and bank balances	15	31,222	27,264
Total current assets		<u>188,391</u>	<u>147,002</u>
Total assets		<u><u>585,449</u></u>	<u><u>536,669</u></u>
Equity and liabilities			
Equity			
Share capital	16	1,574,144	1,574,144
Other reserve	17	160,751	160,751
Accumulated losses		(1,229,179)	(1,244,058)
Total equity		<u>505,716</u>	<u>490,837</u>
Non-current liability			
Lease liabilities	11	26,630	-
Current liabilities			
Trade and other payables	19	44,887	45,825
Tax payable		3	7
Lease liabilities	11	8,213	-
Total current liabilities		<u>53,103</u>	<u>45,832</u>
Total liabilities		<u>79,733</u>	<u>45,832</u>
Net assets		<u>505,716</u>	<u>490,837</u>
Total equity and liabilities		<u><u>585,449</u></u>	<u><u>536,669</u></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 2019

	Note	-Non-distributable-			Accumulated losses RM'000
		Total equity RM'000	Share capital RM'000	Other reserve RM'000	
Opening balance at 1 January 2019		490,837	1,574,144	160,751	(1,244,058)
Total comprehensive income for the year		<u>14,879</u>	<u>-</u>	<u>-</u>	<u>14,879</u>
Closing balance at 31 December 2019		<u><u>505,716</u></u>	<u><u>1,574,144</u></u>	<u><u>160,751</u></u>	<u><u>(1,229,179)</u></u>
Opening balance at 1 January 2018		(738,489)	358,644	160,737	(1,257,870)
Total comprehensive income for the year		13,812	-	-	13,812
<u>Transaction with owner</u>					
Effects of variation of rights of redeemable preference shares	16	798,000	798,000	-	-
Issuance of shares for offsetting cumulative dividend of redeemable preference shares	16	417,500	417,500	-	-
Waiver of cumulative dividend of redeemable preference shares	17	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><u>490,837</u></u>	<u><u>1,574,144</u></u>	<u><u>160,751</u></u>	<u><u>(1,244,058)</u></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 2019

	Note	2019 RM'000	2018 RM'000
Operating activities			
Profit before tax		15,100	13,929
Adjustments for:			
Depreciation of property, plant and equipment	7	45,183	41,905
Depreciation of rights-of-use assets	7	8,854	188
Property, plant and equipment written off	7	9	-
Inventories written off	7	855	-
Provision for/(reversal of) obsolescence of spares	7	76	(19)
Unrealised foreign exchange loss/(gain)	7	16	(250)
Finance cost	6	1,660	-
Interest income	7	(679)	(366)
Total adjustments		<u>55,974</u>	<u>41,458</u>
Operating cash flows before changes in working capital		<u>71,074</u>	<u>55,387</u>
<u>Changes in working capital</u>			
Inventories		773	(4,561)
Trade and other receivables		(39,124)	(38,747)
Prepayments		(12)	(11)
Trade and other payables		(935)	(6,710)
Total changes in working capital		<u>(39,298)</u>	<u>(50,029)</u>
Cash flows from operations		31,776	5,358
Income taxes paid		(225)	(134)
Net cash flows from operating activities		<u>31,551</u>	<u>5,224</u>
Investing activities			
Purchase of property, plant and equipment	9	(18,761)	(11,128)
Interest received		679	366
Net cash flows used in investing activities		<u>(18,082)</u>	<u>(10,762)</u>
Financing activity			
Contractual lease payments, representing net cash outflow used in financing activity		(9,493)	-
Net increase/(decrease) in cash and cash equivalents		3,976	(5,538)
Effect of exchange rate changes on cash and cash equivalents		(18)	47
Cash and cash equivalents at 1 January		<u>27,264</u>	<u>32,755</u>
Cash and cash equivalents at 31 December	15	<u><u>31,222</u></u>	<u><u>27,264</u></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 2019

1. Corporate information

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

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

The immediate 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 2019, the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2019.

<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	
- Amendments to MFRS 3: <i>Business Combinations: Previously held interest in a joint operation</i>	1 January 2019
- Amendments to MFRS 11: <i>Joint Arrangements: Previously held interest in a joint operation</i>	1 January 2019
- Amendments to MFRS 112: <i>Income Taxes: Income tax consequences of payments on financial instruments classified as equity</i>	1 January 2019
- Amendments to MFRS 123: <i>Borrowing Costs: Borrowing costs eligible for capitalisation</i>	1 January 2019
IC Interpretation 23: <i>Uncertainty over Income Tax Treatments</i>	1 January 2019

Notes to the financial statements for the financial year ended 31 December 2019

The adoption of the above standards and annual Improvements do not have any significant impact on the financial statements of the Company, except as discussed below:

MFRS 16: Leases

MFRS 16: Leases (“MFRS 16”) replaces MFRS 117: Leases (“MFRS 117”), IC Interpretation 4: Determining whether an Arrangement contains a Lease (“IC 4”), IC Interpretation 115: Operating Lease-Incentives (“IC 115”) and IC Interpretation 127: Evaluating the Substance of Transactions Involving the Legal Form of a Lease (“IC 127”). 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 (“ROU”) 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.

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.

Transition to MFRS 16

The Company adopted MFRS 16 on 1 January 2019, using the modified retrospective method and did not restate comparative information. Instead, the Company recognised the right-of-use assets are measured at an amount equal to the lease liabilities at the date of initial application. The Company also elected to apply the standard to contracts that were previously identified as leases applying MFRS 117 and IFRIC 4. Therefore, the Company did not apply the standard to contracts that were not previously identified as containing a lease applying MFRS 117 and IFRIC 4.

The Company elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within twelve months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

For leases where the Company is lessee, the Company elected not to separate the non-lease components from lease components, and instead accounted for both components as a single lease component.

Below is the impact of adopting MFRS 16 to opening balances to the Company:

	Impact of adoption of MFRS 16 to opening balance as at 1 January 2019 Increase/(decrease) RM'000
Statement of Financial Position	
Land used rights (Non current assets)	(13,881)
Right-of-use assets (Non current assets)	56,557
Lease liabilities (Non current liabilities)	34,843
Lease liabilities (Current liabilities)	<u>7,833</u>

Notes to the financial statements for the financial year ended 31 December 2019

Upon adoption of MFRS 16, the Company recognised lease liabilities in relation to leases which had been previously been recognised as “operating leases” under the previous principles of MFRS 117.

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>
Amendments to MFRS 2: Share-based Payment	1 January 2020
Amendments to MFRS 3: Business Combinations	1 January 2020
Amendments to MFRS 6: Exploration for and Evaluation of Mineral Resources	1 January 2020
Amendments to MFRS 14: Regulatory Deferral Accounts	1 January 2020
Amendments to MFRS 101: Presentation of Financial Statements	1 January 2020
Amendments to MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2020
Amendments to MFRS 134: Interim Financial Reporting	1 January 2020
Amendments to MFRS 137: Provision, Contingent Liabilities and Contingent Asset	1 January 2020
Amendments to MFRS 138: Intangible Assets	1 January 2020
Amendments to IC Interpretation 12: Service Concession Agreements	1 January 2020
Amendments to IC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
Amendment to IC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine	1 January 2020
Amendments to IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2020
Amendments to IC Interpretation 132: Intangible Assets-Website Costs	1 January 2020
MFRS 17: Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	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.

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

Notes to the financial statements for the financial year ended 31 December 2019

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

(i) 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.

(ii) Transactions and balances

Transactions in foreign currencies are initially recorded by the Company’s at its respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income (“OCI”) or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income or part of it on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Company initially recognise the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Company determines the transaction date for each payment or receipt of advance consideration.

2.6 Fair value measurement

The Company measures financial instruments at fair value at each reporting date.

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

Notes to the financial statements for the financial year ended 31 December 2019

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 is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Company recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the entity's performance creates or enhances an asset (for example, work-in-progress) that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

(i) Provision for tolling services - manufacturing fees

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 120 days.

(ii) 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.

Notes to the financial statements for the financial year ended 31 December 2019

(iii) Interest income

Interest income is recorded using the effective interest rate.

2.8 Income taxes

(i) 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.

(ii) 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.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(iii) Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.9 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if

Notes to the financial statements for the financial year ended 31 December 2019

any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company depreciates them separately based on their specific useful lives. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised.

Where an indication of impairment exists, the carrying amount of the plant and equipment is assessed and written down immediately to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. At each reporting date, the Company assesses whether there is any indication of impairment.

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
Equipments	3 - 10 years
Furniture and fittings	10 years
Leasehold property improvements	40 years

Construction in progress is stated at cost, net of accumulated impairment losses, if any.

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

2.10 Leases

Accounting policies applied from 1 January 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement

Notes to the financial statements for the financial year ended 31 December 2019

date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land	12.5 - 99 years
Vehicles	4 - 5 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.11.

(ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment and rental of condominium (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Accounting policies applied until 31 December 2018

(i) Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Lease rental payments on operating leases are charged to profit or loss in the financial period they become payable, on a straight line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) 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 terms of 99 years.

2.11 Impairment of non-financial assets

Notes to the financial statements for the financial year ended 31 December 2019

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units ("CGUs") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Company bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for the Company's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

2.12 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as disclosed in Notes MFRS 15.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual

Notes to the financial statements for the financial year ended 31 December 2019

cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Company does not has financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments), financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

The Company measure financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (“EIR”) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company’s financial assets at amortised cost includes trade and other receivables.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

Impairment

The Company recognise an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit

Notes to the financial statements for the financial year ended 31 December 2019

risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company apply a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company may consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition of financial liabilities including loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to trade and other payables. Financial liabilities are classified as current liabilities, except for those having repayment date later than 12 months after the reporting date which are classified as non-current.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statements of profit or loss.

(iii) Offsetting of financial instruments

Notes to the financial statements for the financial year ended 31 December 2019

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

2.13 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.

2.14 Cash and cash equivalents

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

2.15 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.

2.16 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.

2.17 Employee benefits

(a) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Company. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(b) 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.

2.18 Contingencies

Notes to the financial statements for the financial year ended 31 December 2019

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.

2.19 Related parties

A related party is defined as follows:

- a) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- b) An entity is related to the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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.

(a) Deferred tax assets

Notes to the financial statements for the financial year ended 31 December 2019

Deferred tax assets are recognised for all unabsorbed tax losses, unutilised 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 unabsorbed tax losses, unutilised reinvestment allowance and unutilised investment tax allowance.

The carrying value of recognised deferred tax assets of the Company at 31 December 2019 was RM79,575,000 (2018: RM79,575,000).

The total carrying value of unutilised investment tax allowance of the Company was RM2,363,000 (2018: RM6,117,000).

The carrying amount of the Company's deferred tax assets at the reporting date is disclosed in Note 12.

(b) Income taxes

Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognise liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Current year income tax expense of the Company for the financial year is disclosed in Note 8.

(c) Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

The carrying amount of the Company's leases at the reporting date is disclosed in Note 11.

Notes to the financial statements for the financial year ended 31 December 2019

4. Revenue from contracts with customers

	2019 RM'000	2018 RM'000
Revenue from contracts with customers		
Manufacturing fees	296,990	294,101
Sale of steam	4,580	2,679
	<u>301,570</u>	<u>296,780</u>
Timing of revenue recognition		
Recognised at the point in time	<u>301,570</u>	<u>296,780</u>

5. Employee benefits expense

	2019 RM'000	2018 RM'000
Wages and salaries	19,153	18,501
Contributions to defined contribution plan	2,848	2,784
Social security contributions	138	138
Other benefits	1,868	1,990
	<u>24,007</u>	<u>23,413</u>

Included in employee benefits expense of the Company is director's remuneration amounting to RM797,000 (2018: RM748,000).

6. Finance cost

	2019 RM'000	2018 RM'000
Interest on lease liabilities	<u>1,660</u>	<u>-</u>

7. Profit before tax

The following items have been included in arriving at profit before tax:

	2019 RM'000	2018 RM'000
Auditors' remuneration	90	90
Employee benefits expense (Note 5)	24,007	23,413
Depreciation of property, plant and equipment (Note 9)	45,183	41,905
Depreciation of ROU assets (Note 11)	8,854	-
Accretion of interest (Note 11)	1,660	-
Amortisation of land use rights (Note 10)	-	188
Property, plant and equipment written off	9	-
Inventories written off	855	-
Rental expenses	1,465	1,173
Rental of land	-	493
Provision for/(reversal of) obsolescence of spares	76	(19)
Interest income	(679)	(366)
Unrealised foreign exchange loss/(gain)	16	(250)
Realised foreign exchange loss/(gain)	<u>45</u>	<u>#</u>

Notes to the financial statements for the financial year ended 31 December 2019

represents realised foreign exchange gain of RM150

8. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019	2018
	RM'000	RM'000
Malaysian income tax		
- Current income tax	222	113
- (Over)/under provision in respect of previous years	(1)	4
Income tax expense reported in the statement of comprehensive income	<u>221</u>	<u>117</u>

Reconciliation between tax expense and accounting profit

Reconciliation of tax expense and the accounting profit multiplied by corporate tax rate for 2019 and 2018 are as follows:

	2019	2018
	RM'000	RM'000
Profit before tax	<u>15,100</u>	<u>13,929</u>
Tax at statutory tax rate of 24% (2018: 24%)	3,624	3,343
Adjustments:		
Non-deductible expenses	354	143
Income not subject to taxation	(2)	(2)
Recognition of previously unrecognised investment tax allowance, now recognised	(3,754)	(3,371)
(Over)/under provision of income tax in respect of previous years	(1)	4
Income tax expense reported in the statement of comprehensive income	<u>221</u>	<u>117</u>

The income tax is calculated at the statutory tax rate of 24% (2018: 24%) of the estimated assessable profit for the year.

Unutilised investment tax allowance of the Company which is available for set-off against future taxable profit for which the tax effect has not been recognised in the financial statements is as per below:

	2019	2018
	RM'000	RM'000
Unutilised investment tax allowance	9,847	25,487
Tax rate	24%	24%
Deferred tax asset not recognised	<u>2,363</u>	<u>6,117</u>

In accordance with the provision in Finance Act 2018, effective from year assessment 2019, the unrecognised tax losses are available for the utilisation in the next seven years, for which, any excess at the end of the seventh year, will be disregarded.

Notes to the financial statements for the financial year ended 31 December 2019

9. Property, plant and equipment

	Leasehold land improvements	Buildings	Plant and machinery	Motor vehicles	Equipments	Furniture and fittings	Leasehold property improvements	Construction in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost:									
At 1 January 2018	4,573	22,862	1,215,574	14,051	10,092	4,453	10,520	53,141	1,335,266
Additions	-	-	307	184	183	-	-	10,454	11,128
Transfer	-	-	30,100	-	-	-	-	(30,100)	-
At 31 December 2018 and 1 January 2019	4,573	22,862	1,245,981	14,235	10,275	4,453	10,520	33,495	1,346,394
Additions	-	-	271	-	130	-	-	18,360	18,761
Write offs	-	-	(24,639)	(11)	(51)	-	(17)	-	(24,718)
Transfer	-	-	33,103	-	217	-	-	(33,320)	-
At 31 December 2019	4,573	22,862	1,254,716	14,224	10,571	4,453	10,503	18,535	1,340,437
Accumulated depreciation:									
At 1 January 2018	4,566	12,285	960,099	14,048	9,410	4,395	3,475	-	1,008,278
Depreciation charge for the year (Note 7)	6	571	40,790	22	231	22	263	-	41,905
At 31 December 2018 and 1 January 2019	4,572	12,856	1,000,889	14,070	9,641	4,417	3,738	-	1,050,183
Depreciation charge for the year (Note 7)	1	572	44,008	61	262	16	263	-	45,183
Write offs	-	-	(24,639)	(11)	(49)	-	(10)	-	(24,709)
At 31 December 2019	4,573	13,428	1,020,258	14,120	9,854	4,433	3,991	-	1,070,657
Net carrying amount:									
At 31 December 2018	1	10,006	245,092	165	634	36	6,782	33,495	296,211
At 31 December 2019	-	9,434	234,458	104	717	20	6,512	18,535	269,780

10. Land use rights

	2019 RM'000	2018 RM'000
Cost:		
At 1 January	18,574	18,574
Reclassification to right-of-use assets (Note 11)	(18,574)	-
At 31 December	-	18,574
Accumulated depreciation:		
At 1 January	4,693	4,505
Reclassification to right-of-use assets (Note 11)	(4,693)	-
Amortisation charge for the year (Note 7)	-	188
At 31 December	-	4,693
Net carrying amount	-	13,881

Notes to the financial statements for the financial year ended 31 December 2019

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 74 years (2018: 75 years). Upon the adoption of MFRS 16, effective from 1 January 2019, the land use rights has been transferred to right-of-use assets.

11. Right-of-use assets and lease liabilities

The Company has lease contracts for various items of land and vehicles used in its operations. Generally, the Company is restricted from assigning and subleasing the leased assets.

Leases of land generally have lease terms between 12.5 to 99 years, while vehicles and other equipment generally have lease terms between 4 and 5 years.

With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Set out below are the carrying amounts of rights-of-use assets of the Company recognised and the movements during the year:

	Land use right	Vehicles	Total
	RM'000	RM'000	RM'000
At 1 January 2019	-	-	-
Reclassification from land use rights (Note 10)	13,881	-	13,881
Effect of adoption of MFRS 16	9,296	33,380	42,676
Depreciation expense (Note 7)	(739)	(8,115)	(8,854)
At 31 December 2019	<u>22,438</u>	<u>25,265</u>	<u>47,703</u>

Set out below are the carrying amounts of lease liabilities of the Company recognised and the movements during the year:

	RM'000
At 1 January 2019	-
Effect of adoption of MFRS 16	42,676
Accretion of interest (Note 6)	1,660
Payments	(9,493)
At 31 December 2019	<u>34,843</u>
Current	<u>8,213</u>
Non current	<u>26,630</u>

The following are the amounts recognised in profit or loss:

	RM'000
Depreciation expense of right-of-use assets (Note 7)	8,854
Interest expense on lease liabilities (Note 7)	1,660
Expense relating to short-term leases	1,418
Expense relating to leases of low-value assets	47
Total amount recognised in profit or loss	<u>11,979</u>

The Company had total cash outflows for lease of RM9,493,000.

Notes to the financial statements for the financial year ended 31 December 2019

12. Deferred tax

	2019 RM'000	2018 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	125,286	127,951
Deferred tax liabilities	<u>(45,711)</u>	<u>(48,376)</u>
	<u>79,575</u>	<u>79,575</u>

Deferred tax relates to the following:

	As at 1 January 2018 RM'000	Recognised in profit or loss RM'000	As at 31 December 2018/ 1 January 2019 RM'000	Recognised in profit or loss RM'000	As at 31 December 2019 RM'000
Deferred tax liabilities:					
Property, plant and equipment	<u>(53,386)</u>	<u>5,010</u>	<u>(48,376)</u>	<u>2,665</u>	<u>(45,711)</u>
Deferred tax assets:					
Unutilised tax losses	72,973	(49)	72,924	1,192	74,116
Unutilised investment tax allowance and reinvestment allowance	57,324	(5,778)	51,546	(4,731)	46,815
Others	<u>2,664</u>	<u>817</u>	<u>3,481</u>	<u>874</u>	<u>4,355</u>
	<u>132,961</u>	<u>(5,010)</u>	<u>127,951</u>	<u>(2,665)</u>	<u>125,286</u>
	<u>79,575</u>	<u>-</u>	<u>79,575</u>	<u>-</u>	<u>79,575</u>

13. Inventories

	2019 RM'000	2018 RM'000
At cost		
Raw materials	1,217	1,625
Chemicals and catalyst	10,601	13,297
Work-in-progress	483	1,296
At net realisable value		
Materials and spares	<u>34,426</u>	<u>32,213</u>
Total of inventories at lower of cost and net realisable value	<u>46,727</u>	<u>48,431</u>

During the year, amounting to RM76,000 was recognised as an expense for inventories carried at net realisable value.

Notes to the financial statements for the financial year ended 31 December 2019

14. Trade and other receivables

	2019	2018
	RM'000	RM'000
Current		
Trade receivables		
Third parties	569	427
Related company	107,119	67,457
	<u>107,688</u>	<u>67,884</u>
Other receivables		
Deposits	184	185
Other receivables	4,393	5,073
	<u>4,577</u>	<u>5,258</u>
Less: Allowance for impairment	<u>(2,064)</u>	<u>(2,064)</u>
Other receivables, net	<u>2,513</u>	<u>3,194</u>
Total trade and other receivables	<u>110,201</u>	<u>71,078</u>

Trade receivables

Trade receivables are non-interest bearing and is generally on 30 to 120 days (2018: 30 to 60 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. Related company refers to companies within Reliance Industries Limited Group.

Other receivables that are impaired

The Company has provided an allowance of RM2,064,000 for impairment of the advance to a corporation with a nominal amount of RM3,232,000 (2018: RM3,226,000). This corporation has not commenced operations since the date of its incorporation.

15. Cash and bank balances

	2019	2018
	RM'000	RM'000
Cash at banks and in hand	<u>31,222</u>	<u>27,264</u>
Cash at banks earns interest at fixed rate based on end-of-day available balance.		

16. Share capital

	2019	2018
	RM'000	RM'000
Issued and fully paid:		
Ordinary shares		
At 1 January/31 December	<u>358,644</u>	<u>358,644</u>
Redeemable preference shares		
At 1 January	1,215,500	-
Allotment during the year	-	417,500
Reclassified from loans and borrowings during the year	-	798,000
At 31 December	<u>1,215,500</u>	<u>1,215,500</u>
Total share capital	<u>1,574,144</u>	<u>1,574,144</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.

Notes to the financial statements for the financial year ended 31 December 2019

In prior year, 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:

- a) 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.
- b) 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.

17. Other reserve

	2019	2018
	RM'000	RM'000
At 1 January	160,751	160,737
Waiver of cumulative dividend of redeemable preference shares during the year	-	14
At 31 December	<u>160,751</u>	<u>160,751</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.

18. Loans and borrowings

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

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

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

Notes to the financial statements for the financial year ended 31 December 2019

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

19. Trade and other payables

	2019 RM'000	2018 RM'000
Current		
Trade payables		
Third parties	6,011	8,916
Other payables		
Accruals	27,605	20,477
Other payables	11,271	16,432
	<u>38,876</u>	<u>36,909</u>
Total trade and other payables	<u>44,887</u>	<u>45,825</u>

(a) Trade payables

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 60 days (2018: 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 (2018: cash before delivery to 60 days) term.

20. Related party disclosures

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

<u>Name of the related companies</u>	<u>Relationship</u>
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:

	2019 RM'000	2018 RM'000
With fellow subsidiary:		
Rendering of manufacturing services	296,990	294,101
Compensation payment for damaged PTA	<u>(123)</u>	<u>-</u>
With ultimate holding company:		
Reimbursement for payment on behalf for computer software	<u>(130)</u>	<u>(129)</u>

Terms and conditions of transactions with related parties

The sales to and purchases from related parties have been entered into in the normal course of the business and have been established on mutually agreed terms and conditions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash (Note 14). There have been no guarantees provided or received for any related party receivable. For the year ended 31 December 2019 and 2018, the Company has not recorded any impairment of receivables

Notes to the financial statements for the financial year ended 31 December 2019

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.

21. Capital commitments

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

	2019	2018
	RM'000	RM'000
Approved and contracted for	12,731	1,520
Approved but not contracted for	<u>115,401</u>	<u>5,869</u>
	<u>128,132</u>	<u>7,389</u>

22. Contingent liability

As at 31 December 2019, the Company's total amount of bank guarantees to third parties was RM11,130,000 (2018: RM11,115,000).

23. 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
Lease liabilities	11
Trade and other receivables	14
Trade and other payables	19

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values due to their short-term nature.

24. 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 and liquidity 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.

Notes to the financial statements for the financial year ended 31 December 2019

Exposure to credit risk

As at 31 December 2019, 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 2019, the credit risk concentration profile of the Company's trade receivables is approximately 99% (2018: 99%) 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 14. 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 overdraft 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.

	Within one year RM'000	One to five years RM'000	More than five years RM'000	Total RM'000
2019				
Financial liabilities:				
Trade and other payables	44,887	-	-	44,887
Lease liabilities	9,523	22,555	23,454	55,532
Total undiscounted financial liabilities	<u>54,410</u>	<u>22,555</u>	<u>23,454</u>	<u>100,419</u>
2018				
Financial liabilities:				
Trade and other payables, representing total undiscounted financial liabilities	45,825	-	-	45,825

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 earnings before interest and income tax ("EBIT") as a percentage of the average capital employed for the year. Capital employed is represented as total assets less current liabilities.

Notes to the financial statements for the financial year ended 31 December 2019

	Note	2019 RM'000	2018 RM'000
Profit net of tax		14,879	13,812
Add: Interest	6	1,660	-
Income tax expense	8	221	117
EBIT		<u>16,760</u>	<u>13,929</u>
Capital employed - opening		490,837	477,025
Capital employed - closing		<u>532,346</u>	<u>490,837</u>
Capital employed - average		<u>511,592</u>	<u>483,931</u>
ROACE		<u>3%</u>	<u>3%</u>

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

26. Subsequent event

With widespread concerns about the ongoing COVID-19 pandemic, the Government of Malaysia had, on 16 March 2020 declared the Movement Control Order (“MCO”) from 18 March to 31 March 2020 and subsequently extended to 12 May 2020. The MCO encompasses complete restriction of movement and assembly nationwide, and closure of all government and private premises except those involved in essential services. The Company is dealing in essential products industry and approval had been granted by the Government, hence they are still in operation during MCO period. The MCO was revised to the Conditional Movement Control Order (“CMCO”) on 4 May 2020 and was subsequently extended to 9 June 2020 with various economic and social activities allowed, subject to conditions such as the implementation of standard operating procedures which have been set by the Government. As the COVID-19 outbreak situation is evolving, the Company is actively monitoring and managing the operation to mitigate any potential business impact, however, the financial impact cannot be reliably estimated as at the date of this report. The occurrence of the COVID-19 outbreak is a non adjusting post balance sheet event.

27. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 14 May 2020.