

RP CHEMICALS (MALAYSIA) SDN. BHD.
(Incorporated in Malaysia)

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

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 2016, and statement of profit and loss and other 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.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, 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 1965 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 1965 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements 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

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

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

Other 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
02882/01/2019 J
Chartered Accountant

Kuantan, Pahang Darul Makmur, Malaysia
23 March 2017

Statement of Profit or Loss and Other Comprehensive Income For the Financial Year Ended 31 December 2016

	Note	2016 RM'000	2015 RM'000 Restated
INCOME			
Revenue	5	227,050	411,966
Other income		1,679	60,089
TOTAL REVENUE		<u>228,729</u>	<u>472,055</u>
EXPENDITURE			
Cost of materials consumed		(35,074)	(39,100)
Changes in inventories of work-in-progress		(14)	222
Employee benefits expense	6	(24,451)	(25,418)
Finance cost	7	(76,645)	(77,517)
Depreciation and amortisation expense		(61,052)	(46,144)
Other expenses		(144,555)	(129,987)
TOTAL EXPENSES		<u>(341,791)</u>	<u>(317,944)</u>
(Loss)/profit before tax	8	<u>(113,062)</u>	<u>154,111</u>
Income tax expense	9	(24)	(17,087)
(Loss)/profit net of tax		<u><u>(113,086)</u></u>	<u><u>137,024</u></u>

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

Statement of Financial Position As at 31 December 2016

	Note	2016 RM'000	2015 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	346,732	360,796
Land use rights	11	14,257	14,445
Deferred tax assets	12	79,575	79,575
		<u>440,564</u>	<u>454,816</u>
Current assets			
Inventories	13	44,525	41,672
Trade and other receivables	14	21,204	25,030
Prepayments		268	2,492
Cash and bank balances	15	5,400	403,852
		<u>71,397</u>	<u>473,046</u>
Total assets		<u>511,961</u>	<u>927,862</u>
Equity and liabilities			
Current liabilities			
Loans and borrowings	16	—	380,948
Trade and other payables	17	45,650	44,162
		<u>45,650</u>	<u>425,110</u>
Net current assets		<u>25,747</u>	<u>47,936</u>
Non-current liability			
Loans and borrowings	16	1,141,379	1,064,734
Total liabilities		<u>1,187,029</u>	<u>1,489,844</u>
Net liabilities		<u>(675,068)</u>	<u>(561,982)</u>
Equity attributable to owner of the Company			
Share capital	18	358,644	358,644
Other reserve	19	160,737	160,737
Accumulated losses		(1,194,449)	(1,081,363)
Total equity		<u>(675,068)</u>	<u>(561,982)</u>
Total equity and liabilities		<u>511,961</u>	<u>927,862</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 2016

	Equity, total RM'000	Share capital RM'000	Non-distributable- Other reserve RM'000	Distributable Profit/ (Accumulated losses) RM'000
2016				
Opening balance at 1 January 2016	(561,982)	358,644	160,737	(1,081,363)
Total comprehensive loss	(113,086)	-	-	(113,086)
Closing balance at 31 December 2016	<u>(675,068)</u>	<u>358,644</u>	<u>160,737</u>	<u>(1,194,449)</u>
2015				
Opening balance at 1 January 2015	(699,006)	358,644	160,737	(1,218,387)
Total comprehensive income	137,024	-	-	137,024
Closing balance at 31 December 2015	<u>(561,982)</u>	<u>358,644</u>	<u>160,737</u>	<u>(1,081,363)</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 2016

	Note	2016 RM'000	2015 RM'000 Restated
Operating activities			
(Loss)/profit before tax		(113,062)	154,111
Adjustments for:			
Depreciation of property, plant and equipment	8	60,864	45,956
Amortisation of land use rights	8	188	188
Gain on disposal of property, plant and equipment	8	(41)	—
Property, plant and equipment written off	8	192	288
Gain on forfeited fund	8	(5)	—
Unrealised exchange (gain)/loss		(2,066)	8,460
Redeemable preferential share dividends	7	76,645	77,517
Interest income		(103)	(152)
Total adjustments		<u>135,674</u>	<u>132,257</u>
Operating cash flows before changes in working capital		<u>22,612</u>	<u>286,368</u>
<u>Changes in working capital</u>			
(Increase) in inventories		(2,853)	(4,692)
Decrease in trade and other receivables		3,877	195,393
Decrease/(increase) in prepayments		2,224	(312)
Increase/(decrease) in trade and other payables		1,469	(26,453)
Total changes in working capital		<u>4,717</u>	<u>163,936</u>
Cash flows from operations		27,329	450,304
Interest received		103	152
Income tax paid		(17)	(37)
Net cash flows from operating activities		<u>27,415</u>	<u>450,419</u>
Investing activities			
Purchase of property, plant and equipment	10	(47,025)	(19,833)
Proceeds from disposal of property, plant and equipment		74	—
Net cash flows used in investing activities		<u>(46,951)</u>	<u>(19,833)</u>

Statement of Cash Flows

For the Financial Year Ended 31 December 2016 (cont'd.)

	Note	2016 RM'000	2015 RM'000 Restated
Financing activities			
Dividend paid on redeemable preferential shares	16	(380,948)	(48,354)
Redemption of redeemable preferential shares	16	—	(40,000)
Net cash flows used in financing activities		<u>(380,948)</u>	<u>(88,354)</u>
Net (decrease)/increase in cash and cash equivalents		(400,484)	342,232
Effect of exchange rate changes on cash and cash equivalents		2,032	3,243
Cash and cash equivalents at 1 January		<u>403,852</u>	<u>58,377</u>
Cash and cash equivalents at 31 December	15	<u><u>5,400</u></u>	<u><u>403,852</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 2016

1. Corporate information

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

The registered office of the Company is located at Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan.

The principal place of business is located at Lot 116, Gebeng Industrial Estate, PO Box 11, Balok, 26080 Kuantan, Pahang Darul Makmur.

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"), trading of chemicals products and providing manufacturing services.

2. Going concern

The financial statements of the Company have been prepared under the going concern basis which contemplates the realisation of assets and the liquidation of liabilities in the normal course of business. As at 31 December 2016, the Company has net liabilities and deficit in shareholder's fund of RM675,068,000. This is primarily due to current year and cumulative dividends accrued for Redeemable Preference Shares ("RPS") of RM76,645,000 and RM343,379,000 respectively.

The directors consider that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustment relating to the recoverability and classification of recorded assets accounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern.

3. Summary of significant accounting policies

3.1 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 1965 in Malaysia. At the beginning of the current financial year, the Company adopted MFRS and Amendments (collectively referred as "pronouncements") which are mandatory for financial periods beginning on or after 1 January 2016 as described fully in Note 3.2.

The financial statements of the Company are prepared under the historical cost convention 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.

3.2 Changes in accounting policies

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

On 1 January 2016, the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2016.

<i>Description</i>	<i>Effective for annual periods beginning on or after</i>
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016
Amendments to MFRS 116 and MFRS 138: Clarification of	
Acceptable Methods of Depreciation and Amortisation	1 January 2016
MFRS 14 Regulatory Deferral Accounts	1 January 2016

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset forms part of the business) rather than the economic benefits that are consumed through the use of an asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

The amendments do not have any impact to the Company as the Company has not used a revenue-based method to depreciate its non-current assets.

MFRS 14 Regulatory Deferral Accounts

MFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulations, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of MFRS. Entities that adopt MFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in the account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing MFRS preparer, this standard does not apply.

Annual Improvements to MFRSs 2012–2014 Cycle

The Annual Improvements to MFRSs 2012-2014 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Company's financial statements.

Standards	Descriptions
MFRS 119 Employee Benefits	The amendment to MFRS 119 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.
MFRS 134 Interim Financial Reporting	The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

3.3 Standards issued but not yet effective

Description	Effective for annual periods beginning on or after
<i>MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)</i>	1 January 2017
<i>MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)</i>	1 January 2017
<i>MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)</i>	1 January 2018
<i>MFRS 15 Revenue from Contracts with Customers</i>	1 January 2018
<i>MFRS 9 Financial Instruments</i>	1 January 2018

MFRS 107 Disclosures Initiatives (Amendments to MFRS 107)

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods. These amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosures to be provided by the Company.

MFRS 112 Recognition of Deferred Tax for Unrealised Losses (Amendments to MFRS 112)

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies this amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Company.

MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)

The amendments to MFRS 2 address three main areas:

- (a) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- (b) The classification of a share-based payment transaction with net settlement features for withholding tax obligations; and
- (c) Accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company is assessing the potential effect of the amendments on the financial statements.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Directors anticipate that the application of MFRS 15 will have a material impact on the amounts reported and disclosures made in the Company’s financial statements. The Company is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but no impact on the classification and measurement of the Company's financial liabilities.

3.4 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.

3.5 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.

3.6 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 23.

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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

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.

3.7 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty, if any.

(a) Sale of goods and rendering of manufacturing services

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods and completion of services.

(b) Interest income

Interest income is recorded using the effective interest rate.

3.8 Taxes

(a) Current income tax

Current income tax assets and liabilities for the current period 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, at the reporting date in the country where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of 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 re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

3.9 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if 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 recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the 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
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.

3.10 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 their lease terms.

3.11 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

(a) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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.

The Company classified all its financial assets as loans and receivables.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate ("EIR") method, less impairment. 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 in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 14.

Derecognition

A financial asset is primarily 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 has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

(b) Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

(c) 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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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 and loans and borrowings.

Subsequent measurement

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing 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 interest-bearing loans and borrowings. For more information refer Note 16.

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 statement of profit or loss.

(d) Offsetting of financial instruments

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.

3.12 Inventories

Inventories are valued 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

3.13 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 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 unit's ("CGU") fair value less costs of disposal and its value in use. 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.

Impairment losses are recognised in the statement of profit or loss.

For assets, 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.

3.14 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits.

3.15 Redeemable preference shares ("RPS")

The RPS are recorded at the amount of proceeds received, net of transaction costs.

The RPS are recognised as a financial liability in the statement of financial position and the preferential dividends are recognised in the statement of profit or loss and other comprehensive income as finance costs in profit or loss in the period in which they are incurred.

3.16 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.

3.17 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 resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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.

3.18 Employee benefits

(a) 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after reporting date are discounted to present value.

3.19 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.

3.20 Share capital and share issuance expenses

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3.21 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.

4. 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 accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

4.1 Judgements

There were no significant judgements made in the process of applying the Company's accounting policies, which have the most significant effect on the amounts recognised in the financial statements.

4.2 Estimates and assumptions

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) Useful lives of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and equipment to be within 8 to 30 years. These are common life expectancies applied in the PTA 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 equipment at the reporting date is disclosed in Note 10.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

(b) Impairment of loans and receivables

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 14.

(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 23 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 2016 was RM79,575,000 (2015: RM79,575,000).

The total carrying value of recognised tax losses, capital allowances and investment tax allowance of the Company was RM569,775,000 (2015: RM608,683,000) and the unrecognised tax losses of the Company was RM37,632,000 (2015: RMNil).

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

5. Revenue

Revenue mainly represents the invoiced value of the manufacturing fees and gross sales of goods less returns and discounts.

6. Employee benefits expense

	2016 RM'000	2015 RM'000 Restated
Wages and salaries	19,511	19,868
Contributions to defined contribution plan	2,830	2,682
Social security contributions	121	100
Other benefits	1,989	2,768
	<u>24,451</u>	<u>25,418</u>

Included in employee benefits expense of the Company is executive director's remuneration amounting to RM695,000 (2015: RM542,000).

7. Finance cost

	2016 RM'000	2015 RM'000
Redeemable preferential share dividends of 9.60% (2015: 9.59%) per annum	76,645	77,517

8. (Loss)/profit before tax

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

	2016 RM'000	2015 RM'000 Restated
Auditors' remuneration	90	90
Employee benefits expense (Note 6)	24,451	25,418
Depreciation of property, plant and equipment (Note 10)	60,864	45,956
Amortisation of land use rights (Note 11)	188	188
Property, plant and equipment written off	192	288
Rental of equipment	1,068	1,104
Rental of land	474	369
Gain on disposal of property, plant and equipment	(41)	—
Gain on forfeited fund	(5)	—
Net foreign exchange gain	<u>(1,111)</u>	<u>(59,126)</u>

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

9. Income tax expense

Major components of income tax expense

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016 RM'000	2015 RM'000
Malaysian income tax		
- Current income tax	25	38
- Overprovision in respect of previous years	(1)	(2)
	<u>24</u>	<u>36</u>
Deferred income tax:		
- Origination of temporary differences	—	17,051
	<u>—</u>	<u>17,051</u>
Income tax expense reported in the statement of profit or loss	<u>24</u>	<u>17,087</u>

Reconciliation between tax expense and accounting (loss)/profit

Reconciliation of tax expense and the accounting (loss)/profit multiplied by corporate tax rate for 2016 and 2015 are as follows:

	2016 RM'000	2015 RM'000
Accounting (loss)/profit before tax	(113,062)	154,111
Tax at statutory tax rate of 24% (2015: 25%)	(27,135)	38,528
Adjustments:		
Non-deductible expenses	18,117	18,095
Income not subject to taxation	(1)	—
Benefits from previously unrecognised tax losses	—	(39,534)
Deferred tax assets not recognised in respect of unused tax losses	9,044	—
Overprovision of income tax in respect of previous years	(1)	(2)
Income tax expense reported in the statement of profit or loss	<u>24</u>	<u>17,087</u>

The income tax is calculated at the statutory tax rate of 24% (2015: 25%) of the estimated assessable profit for the year.

Tax savings during the financial year arising from:

	2016 RM'000	2015 RM'000
Utilisation of previously unrecognised tax losses, capital allowances and investment tax allowance	—	39,534

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

10. Property, plant and equipment

	Leasehold land improvements	Buildings	Plant and machinery	Motor vehicles	EDP equipment	Office equipment	Furniture and fittings	Leasehold property improve- ments	Constru- tion in progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost:										
At 1 January 2015	4,573	22,862	1,211,528	15,516	13,779	4,161	4,547	10,520	33,645	1,321,131
Additions	-	-	518	-	221	15	1	-	19,078	19,833
Disposals	-	-	-	-	-	-	-	-	-	-
Write offs	-	-	(1,030)	(1,189)	-	(9)	-	-	(70)	(2,298)
Transfer	-	-	3,428	-	-	280	-	-	(3,708)	-
At 31 December 2015 and										
1 January 2016	4,573	22,862	1,214,444	14,327	14,000	4,447	4,548	10,520	48,945	1,338,666
Additions	-	-	35	1	89	44	-	-	46,856	47,025
Disposals	-	-	(51)	-	-	(13)	-	-	-	(64)
Write offs	-	-	(34,950)	-	(26)	(877)	-	-	(146)	(35,999)
Transfer	-	-	18,142	-	-	-	-	-	(18,142)	-
At 31 December 2016	4,573	22,862	1,197,620	14,328	14,063	3,601	4,548	10,520	77,513	1,349,628
Accumulated depreciation:										
At 1 January 2015	4,002	10,571	880,211	15,422	13,147	3,522	4,363	2,686	-	933,924
Depreciation charge for										
the year (Note 8)	206	572	44,059	62	571	155	68	263	-	45,956
Disposals	-	-	-	-	-	-	-	-	-	-
Write offs	-	-	(812)	(1,189)	-	(9)	-	-	-	(2,010)
At 31 December 2015 and										
1 January 2016	4,208	11,143	923,458	14,295	13,718	3,668	4,431	2,949	-	977,870
Depreciation charge for										
the year (Note 8)	185	571	59,467	29	160	151	38	263	-	60,864
Disposals	-	-	(21)	-	-	(10)	-	-	-	(31)
Write offs	-	-	(34,908)	-	(26)	(873)	-	-	-	(35,807)
At 31 December 2016	4,393	11,714	947,996	14,324	13,852	2,936	4,469	3,212	-	1,002,896
Net carrying amount:										
At 31 December 2015	365	11,719	290,986	32	282	779	117	7,571	48,945	360,796
At 31 December 2016	180	11,148	249,624	4	211	665	79	7,308	77,513	346,732

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

11. Land use rights

	2016 RM'000	2015 RM'000
Cost:		
At 1 January/31 December	18,574	18,574
Accumulated amortisation:		
At 1 January	4,129	3,941
Amortisation for the year (Note 8)	188	188
At 31 December	4,317	4,129
Net carrying amount	<u>14,257</u>	<u>14,445</u>
Amount to be amortised:		
Not later than one year	188	188
Later than one year but not later than five years	752	752
Later than five years	<u>13,317</u>	<u>13,505</u>

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 77 years (2015: 78 years).

12. Deferred tax

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

	As at 1 January 2015 RM'000	Recognised in profit or loss RM'000	As at 31 December 2015/ 1 January 2016 RM'000	Recognised in profit or loss RM'000	As at 31 December 2016 RM'000
Deferred tax liabilities:					
Property, plant and equipment	(75,830)	8,072	(67,758)	9,205	(58,553)
Others	(2,798)	2,798	-	-	-
	<u>(78,628)</u>	<u>10,870</u>	<u>(67,758)</u>	<u>9,205</u>	<u>(58,553)</u>
Deferred tax assets:					
Unutilised tax losses	36,945	42,097	79,042	(9,032)	70,010
Unutilised investment tax allowance	136,957	(69,915)	67,042	(306)	66,736
Others	1,352	(103)	1,249	133	1,382
	<u>175,254</u>	<u>(27,921)</u>	<u>147,333</u>	<u>(9,205)</u>	<u>138,128</u>
	<u>96,626</u>	<u>(17,051)</u>	<u>79,575</u>	<u>-</u>	<u>79,575</u>

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

12. Deferred tax (cont'd.)

	2016 RM'000	2015 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	138,128	147,333
Deferred tax liabilities	(58,553)	(67,758)
	<u>79,575</u>	<u>79,575</u>

Deferred tax assets have not been recognised in respect of the unutilised tax losses of RM37,632,000 (2015: RM Nil) 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.

13. Inventories

	2016 RM'000	2015 RM'000
Cost		
Raw materials	1,294	1,156
Chemicals and catalyst	8,180	6,884
Work-in-progress	569	583
Materials and spares	34,482	33,049
	<u>44,525</u>	<u>41,672</u>

14. Trade and other receivables

	2016 RM'000	2015 RM'000
Current		
Trade receivable		
Related company	14,591	19,092
	<u>14,591</u>	<u>19,092</u>
Other receivables		
Deposits	234	307
Tax recoverable	2	9
Other receivables	8,441	7,686
	<u>8,677</u>	<u>8,002</u>
Less: Allowance for impairment	(2,064)	(2,064)
Other receivables, net	<u>6,613</u>	<u>5,938</u>
Total trade and other receivables	21,204	25,030
Add: Cash and bank balances (Note 15)	5,400	403,852
Total loans and receivables	<u>26,604</u>	<u>428,882</u>

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

14. Trade and other receivables (cont'd.)

Trade receivable

Trade receivable is non-interest bearing and is generally on 7 days (2015: 60 days) term.

The Company's trade receivable is neither past due nor impaired at the reporting date.

Trade receivable that is neither past due nor impaired is a creditworthy debtor with good payment records with the Company and has 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 (2015: RM2,064,000) for impairment of the advance to a corporation with a nominal amount of RM3,216,000 (2015: RM3,211,000). 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 2016 and 2015.

15. Cash and bank balances

	2016 RM'000	2015 RM'000
Cash at banks and in hand	5,400	403,852
Cash at banks earns interest at fixed rate based on end-of-day available balance.		

16. Loans and borrowings

	2016 RM'000	2015 RM'000
Current		
Redeemable preference shares	-	380,948
Non-current		
Redeemable preference shares	1,141,379	1,064,734
Total loans and borrowings	1,141,379	1,445,682

The remaining maturities of the loans and borrowings as at 31 December are as follows:

	2016 RM'000	2015 RM'000
On demand or within one year	-	380,948
More than 1 year	1,141,379	1,064,734
	1,141,379	1,445,682

	Number of redeemable preference shares of RM1 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised:				
Article 4A redeemable preference shares:				
At 1 January/31 December	500	500	500	500
Article 4B Class A redeemable preference shares:				
At 1 January/31 December	500	500	500	500
Total	1,000	1,000	1,000	1,000

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

16. Loans and borrowings (cont'd.)

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

	Number of redeemable preference shares of RM1 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Article 4A redeemable preference shares:				
Nominal value -issued and fully paid				
At 1 January	-	4	-	4
Redemption during the year	-	(4)	-	(4)
At 31 December	-	-	-	-
Share premium				
At 1 January			-	39,996
Redemption during the year			-	(39,996)
At 31 December			-	-
Accrued dividend				
At 1 January			-	47,401
Increase during the year			-	953
Paid during the year			-	(48,354)
At 31 December			-	-
	-	-	-	-

	Number of redeemable preference shares of RM1 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Article 4B Class A redeemable preference shares:				
Nominal value -issued and fully paid				
At 1 January/31 December	80	80	80	80
Share premium				
At 1 January/31 December			797,920	797,920
Accrued dividend				
At 1 January			647,682	571,118
Increase during the year			76,645	76,564
Paid during the year			(380,948)	-
At 31 December			343,379	647,682
	80	80	1,141,379	1,445,682
Total redeemable preference shares	80	80	1,141,379	1,445,682

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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

16. Loans and borrowings (cont'd.)

Article 4A redeemable preference shares

In prior year, the Company has fully redeemed its nominal amount and premium of RPS amounting to RM4,000 and RM39,996,000 respectively.

Article 4B Class A redeemable preference shares

In the financial year ended 31 December 2003, a total 79,800 Article 4B Class A redeemable preference shares ("Class A RPS") of RM1 each were issued at an issue price of RM10,000 per share and for cash, for additional working capital purposes. The share premium amounted to RM797,920,000 and this has been credited to the share premium account. Class A RPS shall carry the same rights and rank pari passu in all respect with all other shares of the Company except for the special rights, privileges and restriction as described below:

- (a) The Class A RPS will take priority over the redeemable preference shares issued under Article 4A upon a return of capital and assets on a winding-up or otherwise and entitlements to dividends.
- (b) The Class A RPS does not entitle the holder thereof to the right to vote at general meetings except where provided in Article 17 or under the Companies Act 1965.
- (c)
 - (i) The Class A RPS shall carry a preferential dividend right to dividends which can be distributed in accordance with and subject to the Companies Act 1965.
 - (ii) The preferential dividend shall be payable on both the nominal amount and premium. The rate of the preferential dividend shall be the aggregate of 5.75% plus the six months Ringgit Malaysia Kuala Lumpur Interbank Offer Rate ("KLIBOR") quoted by Citibank Berhad per annum calculated on a daily basis.
- (d)
 - (i) Subject to the Companies Act 1965, the holder of the Class A RPS is entitled to redeem the whole or part of the holder's aggregate holding of Class A RPS by giving written notice to the Company stating the holder'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.
 - (ii) Subject to the Companies Act 1965, the Company is entitled to redeem the whole or part of the total issuance of Class A RPS by giving written notice to the holder of the Class A RPS stating the Company's intention to redeem, number of the Class A RPS to be redeemed and the redemption date which shall be at least 30 days from the date of the written notice.
 - (iii) The amount payable by the Company on the redemption of the Class A RPS shall be a sum equal to any rights to Cumulative Preferential Dividends accrued but not paid on those Class A RPS up to the redemption date together with the nominal amount paid up on the Class A RPS and any premium paid to the Company on issuance in respect of the Class A RPS.

On 9 January 2014, the Company has obtained approval from the central bank and holders of the RPS to waive the cumulative dividend premium of RM114,299,000.

17. Trade and other payables

	2016 RM'000	2015 RM'000
Current		
Trade payables		
Third parties	5,689	5,420
Other payables		
Accrued and provision operating expenses	19,640	16,288
Other payables	20,321	22,454
	39,961	38,742
Total trade and other payables	45,650	44,162
Add: Loans and borrowings (Note 16)	1,141,379	1,445,682
Total financial liabilities carried at amortised cost	1,187,029	1,489,844

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

17. Trade and other payables (cont'd)

(a) **Trade payables**

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 60 days (2015: 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 (2015: cash before delivery to 60 days) term.

18. Share capital

	Number of ordinary shares of RM1 each		Amount	
	2016 '000	2015 '000	2016 RM'000	2015 RM'000
Authorised share capital				
At 1 January/31 December	359,000	359,000	359,000	359,000
Issued and fully paid share capital				
At 1 January/31 December	358,644	358,644	358,644	358,644

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.

19. Other reserve

	2016 RM'000	2015 RM'000
At 1 January/31 December	160,737	160,737

The other reserve represents the waiver of cumulative dividend premium for Article 4A and Article 4B Class A Redeemable Preference Share.

20. Related party transactions

(a) **Sale and purchase of goods and services**

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions took place during the financial year between the Company and related parties within Reliance Group:

	2016 RM'000	2015 RM'000
Rendering of manufacturing services to a related company	227,050	411,966
Purchase on behalf of a related company	-	25,951
Other related party transactions:		
Recovery of cost by a related company	105	-
Other income from a related company	3	-

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 2016 and 2015, the Company has not recorded any impairment of receivables relating to amounts owed by 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.

(b) **Compensation of key management personnel**

The remuneration of the executive director during the year was disclosed in Note 6.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

21. Capital commitments

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

	2016	2015
	RM'000	RM'000
Approved and contracted for	12,468	12,235
Approved but not contracted for	6,003	11,474
	<u>18,471</u>	<u>23,709</u>

22. Contingent liability

As at 31 December 2016, the Company's total amount of bank guarantees to third parties was RM10,002,000 (2015: RM8,971,000).

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
Trade and other receivables (current)	14
Trade and other payables (current)	17
Loans and borrowings (current and 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.

The carrying amounts of the current and non-current portion of loans and borrowings are reasonable approximations of fair values due to the insignificant impact of discounting.

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, 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 2016, 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

24. Financial risk management objectives and policies (cont'd)

Credit risk concentration profile

As at 31 December 2016, the credit risk concentration profile of the Company's trade receivable is amount 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 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
2016			
Financial liabilities:			
Trade and other payables	45,650	-	45,650
Loans and borrowings	-	1,141,379	1,141,379
Total undiscounted financial liabilities	<u>45,650</u>	<u>1,141,379</u>	<u>1,187,029</u>
2015			
Financial liabilities:			
Trade and other payables	44,162	-	44,162
Loans and borrowings	380,948	1,064,734	1,445,682
Total undiscounted financial liabilities	<u>425,110</u>	<u>1,064,734</u>	<u>1,489,844</u>

(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.

The Company's exposure to interest rate risk arises primarily from its loans and borrowings.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 10 basis points lower/higher, with all other variables held constant, the Company's profit/(loss) net of tax would have been RM798,000 (2015: RM798,000) higher/lower, arising mainly as a result of lower/higher interest expense on floating rate loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

(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").

Notes to the Financial Statements for the Financial Year Ended 31 December 2016 (cont'd.)

24. Financial risk management objectives and policies (cont'd)

The Company's sales and 12% (2015: 18%) 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 RM536,000 (2015: RM394,844,000).

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Company's (loss)/profit 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.

	(Loss)/profit net of tax	
	2016 RM'000	2015 RM'000
USD/RM - strengthened 3% (2015: 3%)	(5,780)	(11,225)
- weakened 3% (2015: 3%)	5,780	11,225
	5,780	11,225

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	2016 RM'000	2015 RM'000
(Loss)/profit net of tax		(113,086)	137,024
Add: Cumulative preferential dividends	7	76,645	77,517
ROACE numerator		(36,441)	214,541
Capital employed - opening		502,752	670,112
Capital employed - closing		466,311	502,752
Capital employed - average		484,532	586,432
ROACE		-8%	37%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

26. Comparative

Certain comparative amounts as at 31 December 2015 have been reclassified to conform with current year's presentation.

27. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 23 March 2017.