RP CHEMICALS (MALAYSIA) SDN. BHD.

(Incorporated in Malaysia)

Financial Statements for the year ended 31 December, 2017

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 2017, and statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 4 to 28.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

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

Independence and other ethical responsibilities

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

Information other than the financial statements and auditors' report thereon

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

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we also report that in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Other matters

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

Ernst & Young
AF: 0039
Chartered Accountants

Sandra Segaran a/l Muniandy@Krishnan
No. 02882/01/2019 J
Chartered Accountant

Kuantan, Pahang Darul Makmur, Malaysia
29 March 2018

Statement of Comprehensive Income
For the Financial Year Ended 31 December 2017

	Note	2017 RM'000	2016 RM'000
INCOME			
Revenue	5	270,817	227,050
Other income		1,274	1,679
TOTAL REVENUE		272,091	228,729
EXPENDITURE			
Cost of materials consumed		(51,795)	(35,074)
Changes in inventories of work-in-progress		(39)	(14)
Employee benefits expense	6	(23,123)	(24,451)
Finance cost	7	(74,135)	(76,645)
Depreciation and amortisation expense		(42,695)	(61,052)
Other expenses		(143,666)	(144,555)
TOTAL EXPENSES		(335,453)	(341,791)
Loss before tax	8	(63,362)	(113,062)
Income tax expense	9	(59)	(24)
Loss net of tax		(63,421)	(113,086)

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

Statement of Financial Position
As at 31 December 2017

	Note	2017 RM'000	2016 RM'000
Assets			
Non-current assets			
Property, plant and equipment	10	326,988	346,732
Land use rights	11	14,069	14,257
Deferred tax assets	12	79,575	79,575
		420,632	440,564
Current assets			
Inventories	13	43,851	44,525
Trade and other receivables	14	32,083	21,204
Prepayments		218	268
Cash and bank balances	15	32,755	5,400
		108,907	71,397
Total assets		529,539	511,961
Equity and liabilities			
Current liability			
Trade and other payables	16	52,514	45,650
Net current assets		56,393	25,747
Non-current liability			
Loans and borrowings	17	1,215,514	1,141,379
Total liabilities		1,268,028	1,187,029
Net liabilities		(738,489)	(675,068)
Equity attributable to owner of the Company			
Share capital	18	358,644	358,644
Other reserve	19	160,737	160,737
Accumulated losses		(1,257,870)	(1,194,449)
Total equity		(738,489)	(675,068)
Total equity and liabilities		529,539	511,961

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 2017

		-Non-distributable-		
	Total equity RM'000	**Share capital RM'000**	**Other Reserve RM'000**	**Accumulated losses RM'000**
2017				
Opening balance at 1 January 2017	(675,068)	358,644	160,737	(1,194,449)
Total comprehensive loss	(63,421)	-	-	(63,421)
Closing balance at 31 December 2017	(738,489)	358,644	160,737	(1,257,870)
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	(675,068)	358,644	160,737	(1,194,449)

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 2017

	Note	2017 RM'000	2016 RM'000
Operating activities			
Loss before tax		(63,362)	(113,062)
Adjustments for:			
Depreciation of property, plant and equipment	8	42,507	60,864
Amortisation of land use rights	8	188	188
Gain on disposal of property, plant and equipment	8	(10)	(41)
Property, plant and equipment written off	8	207	192
Bad debts written off	8	36	-
Provision for obsolescence of spares	8	1,144	-
Unrealised foreign exchange loss/(gain)		252	(2,066)
Redeemable preferential share dividends	7	74,135	76,645
Interest income		(246)	(103)
Total adjustments		118,213	135,679
Operating cash flows before changes in working capital		54,851	22,617
Changes in working capital			
Increase in inventories		(470)	(2,853)
(Increase)/decrease in trade and other receivables		(11,179)	3,877
Decrease in prepayments		50	2,224
Increase in trade and other payables		6,911	1,464
Total changes in working capital		(4,688)	4,712
Cash flows from operations		50,163	27,329
Income taxes paid		(33)	(17)
Net cash flows from operating activities		50,130	27,312
Investing activities			
Purchase of property, plant and equipment	10	(22,974)	(47,025)
Proceeds from disposal of property, plant and equipment		14	74
Interest received		246	103
Net cash flows used in investing activities		(22,714)	(46,848)
Financing activity			
Dividend paid on redeemable preferential shares, representing net cash flows used in financing activity	17	-	(380,948)
		-	(380,948)
Net increase/(decrease) in cash and cash equivalents		27,416	(400,484)
Effect of exchange rate changes on cash and cash equivalents		(61)	2,032
Cash and cash equivalents at 1 January		5,400	403,852
Cash and cash equivalents at 31 December	15	32,755	5,400

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 2017

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.

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

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 2017, the Company has net liabilities and deficit in shareholder's fund of RM738,489,000. This is primarily due to current year and cumulative dividends accrued for Redeemable Preference Shares ("RPS") of RM74,135,000 and RM417,514,000 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 2016 in Malaysia.

On 15 September 2016, the Companies Act 2016 ("New Act") was enacted and it replaces the Companies Act 1965 in Malaysia with the New Act with effect from 31 January 2017. The key changes of the New Act are disclosed in Note 3.25.

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.

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 2017, the Company adopted the following new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2017.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

Description	*Effective for annual periods beginning on or after*
MFRS 107 Disclosure Initiative (Amendments to MFRS 107)	1 January 2017
MFRS 112 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to MFRS 112)	1 January 2017
Annual Improvements to MFRS Standards 2014–2016 Cycle - Amendments to MFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements *in MFRS 12*	1 January 2017

The new and amended MFRS mandatory for annual financial periods beginning on or after 1 January 2017 do not give rise to any significant effects on the financial statements of the Company, except as disclosed below:

MFRS 112 Recognition of Deferred Tax Assets 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.

The application of these amendments has had no impact on the Company as the Company already assessed the sufficiency of future taxable profits in a way that is consistent with these amendments.

3.3 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.

Description	*Effective for annual periods beginning on or after*
MFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfers of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvements to MFRS Standards 2014 – 2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)	1 January 2019
MFRS 16 Leases	1 January 2019
MFRS 128 Long-term Interests in Associates and Joint Ventures (Amendments to MFRS 128)	1 January 2019
Annual Improvements to MFRS Standards 2015–2017 Cycle	1 January 2019
IC Interpretation 23 Uncertainty over Income Tax Treatments	1 January 2019
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

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

The adoption of the above standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application, except as disclosed below:

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 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*

MFRS 9 introduces new requirements for classification and measurement and impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is currently assessing the impact of MFRS 9 and plans to adopt the new standard on the required effective date.

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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

(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.

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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

(b) Interest income

Interest income is recorded using the effective interest rate.

3.8 Income taxes

(a) Current tax

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

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

(b) Deferred tax

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

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

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

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

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

3.9 Property, plant and equipment

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

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

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

Leasehold land improvements	20 years
Buildings	40 years
Plant and machinery	8 - 30 years
Motor vehicles	3 - 5 years
Electronic data processing (“EDP”) equipment	3 years
Office equipment	10 years
Furniture and fittings	10 years
Leasehold property improvements	40 years

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

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 Impairment of non-financial assets

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

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

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

Impairment losses are recognised in profit or loss.

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 profit or loss.

3.12 Financial assets

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

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit and loss, directly attributable transaction costs.

The Company determines the classification of its financial assets at initial recognition, and categories include loans and receivables, financial assets at fair value through profit or loss, held-to-maturity instruments and available-for-sale financial assets.

All financial assets of the Company are classified as loans and receivables.

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

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 is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

3.13 Impairment of financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

Trade and other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

3.14 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities, within the scope of MFRS 139, are recognised in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

The Company has not designated any financial liabilities as at fair value through profit or loss.

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

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Loans and borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in profit and loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

3.15 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.

3.16 Cash and cash equivalents

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

3.17 Redeemable preference shares ("RPS")

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

The redeemable preference shares are recognised as a financial liability in the statement of financial position. The preferential dividends are recognised as interest expense in profit or loss in the period in which they are incurred.

3.18 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.

3.19 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.

3.20 Employee benefits

Defined contribution plans

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

3.21 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

(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);

(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).

3.22 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.

3.23 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.

3.24 Contingencies

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

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

3.25 Significant changes in regulatory requirements

Companies Act 2016

Amongst the key changes introduced in the New Act which will affect the financial statements of the Company upon the commencement of the New Act on 31 January 2017 are:

(i) the removal of the authorised share capital; and

(ii) the ordinary shares of the Company will cease to have par or nominal value.

The adoption of the New Act has no financial impact on the Company for the current financial year ended 31 December 2017. The effects of adoption are mainly on the disclosures to the financial statements 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 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

4.1 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.

4.2 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) Useful lives of plant and machinery

The cost of plant and machinery is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant and machinery to be within 8 to 30 years. These are common life expectancies applied in the Purified Terephthalic Acid manufacturing industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Company's plant and machinery at the reporting date is disclosed in Note 10.

(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 2017 was RM79,575,000 (2016: RM79,575,000).

The total carrying value of recognised tax losses and investment tax allowance of the Company was RM542,904,000 (2016: RM569,775,000) and the unrecognised tax losses of the Company was RM25,285,000 (2016: RM37,632,000).

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (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

	2017 RM'000	2016 RM'000
Wages and salaries	18,402	19,511
Contributions to defined contribution plan	2,759	2,830
Social security contributions	127	121
Other benefits	1,835	1,989
	23,123	24,451

Included in employee benefits expense of the Company is director's remuneration amounting to RM760,000 (2016: RM695,000).

7. Finance cost

	2017 RM'000	2016 RM'000
Redeemable preferential share dividends of 9.29% (2016: 9.60%) per annum	74,135	76,645

8. Loss before tax

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

	2017 RM'000	2016 RM'000
Auditors' remuneration	90	90
Employee benefits expense (Note 6)	23,123	24,451
Depreciation of property, plant and equipment (Note 10)	42,507	60,864
Amortisation of land use rights (Note 11)	188	188
Property, plant and equipment written off	207	192
Rental of equipment	729	1,068
Rental of land	482	474
Bad debts written off	36	-
Provision for obsolescence of spares	1,144	-
Net foreign exchange loss/(gain)	446	(1,111)
Gain on disposal of property, plant and equipment	(10)	(41)

Notes to the Financial Statements for the Financial Year Ended 31 December 2017(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 2017 and 2016 are:

	2017 RM'000	2016 RM'000
Malaysian income tax		
- Current income tax	59	25
- Over provision in respect of previous years	-	(1)
Income tax expense reported in the statement of comprehensive income	59	24

Reconciliation between tax expense and accounting loss

Reconciliation of tax expense and the accounting loss multiplied by corporate tax rate for 2017 and 2016 are as follows:

	2017 RM'000	2016 RM'000
Accounting loss before tax	(63,362)	(113,062)
Tax at statutory tax rate of 24% (2016: 24%)	(15,207)	(27,135)
Adjustments:		
Non-deductible expenses	18,020	18,117
Income not subject to taxation	(5)	(1)
Benefits from previously unrecognised tax losses	(2,933)	-
Deferred tax assets not recognised in respect of unused tax losses	184	9,044
Over provision of income tax in respect of previous years	-	(1)
Income tax expense reported in the statement of comprehensive income	59	24

The income tax is calculated at the statutory tax rate of 24% (2016: 24%) of the estimated assessable loss for the year.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

10. Property, plant and equipment

	Leasehold land improvements RM'000	Buildings RM'000	Plant and machinery RM'000	Motor vehicles RM'000	EDP equipment RM'000	Office equipment RM'000	Furniture and fittings RM'000	Leasehold property improve-ments RM'000	Constru-ction in progress RM'000	Total RM'000
Cost:										
At 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 and 1 January 2017	4,573	22,862	1,197,620	14,328	14,063	3,601	4,548	10,520	77,513	1,349,628
Additions	-	-	474	-	34	16	9	-	22,441	22,974
Disposals	-	-	(5)	(277)	-	-	(1)	-	-	(283)
Write offs	-	-	(29,328)	-	(7,530)	(92)	(103)	-	-	(37,053)
Transfer	-	-	46,813	-	-	-	-	-	(46,813)	-
At 31 December 2017	4,573	22,862	1,215,574	14,051	6,567	3,525	4,453	10,520	53,141	1,335,266
Accumulated depreciation:										
At 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 and 1 January 2017	4,393	11,714	947,996	14,324	13,852	2,936	4,469	3,212	-	1,002,896
Depreciation charge for the year (Note 8)	173	571	41,228	1	119	123	29	263	-	42,507
Disposals	-	-	(2)	(277)	-	-	-	-	-	(279)
Write offs	-	-	(29,123)	-	(7,530)	(90)	(103)	-	-	(36,846)
At 31 December 2017	4,566	12,285	960,099	14,048	6,441	2,969	4,395	3,475	-	1,008,278
Net carrying amount:										
At 31 December 2016	180	11,148	249,624	4	211	665	79	7,308	77,513	346,732
At 31 December 2017	7	10,577	255,475	3	126	556	58	7,045	53,141	326,988

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

11. Land use rights

	2017 RM'000	2016 RM'000
Cost:		
At 1 January/31 December	18,574	18,574
Accumulated amortisation:		
At 1 January	4,317	4,129
Amortisation for the year (Note 8)	188	188
At 31 December	4,505	4,317
Net carrying amount	14,069	14,257

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 76 years (2016: 77 years).

12. Deferred tax

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

	As at 1 January 2016 RM'000	Recognised in profit or loss RM'000	As at 31 December 2016/ 1 January 2017 RM'000	Recognised in profit or loss RM'000	As at 31 December 2017 RM'000
Deferred tax liabilities:					
Property, plant and equipment	(67,758)	9,205	(58,553)	5,167	(53,386)
	(67,758)	9,205	(58,553)	5,167	(53,386)
Deferred tax assets:					
Unutilised tax losses	79,042	(9,032)	70,010	2,963	72,973
Unutilised investment tax allowance	67,042	(306)	66,736	(9,412)	57,324
Others	1,249	133	1,382	1,282	2,664
	147,333	(9,205)	138,128	(5,167)	132,961
	79,575	-	79,575	-	79,575

	2017 RM'000	2016 RM'000
Presented after appropriate offsetting as follows:		
Deferred tax assets	132,961	138,128
Deferred tax liabilities	(53,386)	(58,553)
	79,575	79,575

Deferred tax assets have not been recognised in respect of the unutilised tax losses of RM25,285,000 (2016: RM37,632,000) due to uncertainty of its recoverability. The availability are subject to no substantial changes in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

13. Inventories

	2017 RM'000	2016 RM'000
Cost		
Raw materials	1,692	1,294
Chemicals and catalyst	8,046	8,180
Work-in-progress	530	569
Materials and spares	34,727	34,482
	44,995	44,525
Less: Provision for obsolescence spares	(1,144)	-
Inventories, net	43,851	44,525

14. Trade and other receivables

	2017 RM'000	2016 RM'000
Current		
Trade receivable		
Related company	20,127	14,591
	20,127	14,591
Other receivables		
Deposits	213	234
Tax recoverable	-	2
Other receivables	13,807	8,441
	14,020	8,677
Less: Allowance for impairment	(2,064)	(2,064)
Other receivables, net	11,956	6,613
Total trade and other receivables	32,083	21,204
Add: Cash and bank balances (Note 15)	32,755	5,400
Total loans and receivables	64,838	26,604

Trade receivable

Trade receivable is non-interest bearing and is generally on 7 days (2016: 7 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 (2016: RM2,064,000) for impairment of the advance to a corporation with a nominal amount of RM3,221,000 (2016: RM3,216,000). 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 2017 and 2016.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

15. Cash and bank balances

	2017 RM'000	2016 RM'000
Cash at banks and in hand	32,755	5,400

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

16. Trade and other payables

	2017 RM'000	2016 RM'000
Current		
Trade payables		
Third parties	9,252	5,689
	9,252	5,689
Other payables		
Accrued and provision operating expenses	15,976	19,640
Tax payable	24	-
Other payables	27,262	20,321
	43,262	39,961
Total trade and other payables	52,514	45,650
Add: Loans and borrowings (Note 17)	1,215,514	1,141,379
Total financial liabilities carried at amortised cost	1,268,028	1,187,029

(a) Trade payables

These amounts are non-interest bearing. Trade payables are normally settled on 30 to 60 days (2016: 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 (2016: cash before delivery to 60 days) term.

17. Loans and borrowings

	2017 RM'000	2016 RM'000
Non-current		
Redeemable preference shares	1,215,514	1,141,379

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

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

	Number of redeemable Preference shares		Amount	
	2017	**2016**	**2017**	**2016**
	'000	**'000**	**RM'000**	**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			343,379	647,682
Increase during the year			74,135	76,645
Paid during the year			-	(380,948)
At 31 December			417,514	343,379
Total redeemable preference shares	80	80	1,215,514	1,141,379

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.

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 2016.

(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 2016.

(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 2016, 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 2016, 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 Class A RPS to waive the cumulative dividend premium of RM114,299,000.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

18. Share capital

	Number of ordinary Shares		Amount	
	2017	**2016**	**2017**	**2016**
	'000	**'000**	**RM'000**	**RM'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

	2017	**2016**
	RM'000	**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:

	2017	**2016**
	RM'000	**RM'000**
Rendering of manufacturing services to a related company	270,817	227,050
Other related party transactions:		
- Recovery of cost by a related company	(237)	(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 2017 and 2016, the Company has not recorded any impairment of receivables relating to amounts owed by a related party. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(b) Compensation of key management personnel

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

21. Capital commitments

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

	2017	**2016**
	RM'000	**RM'000**
Approved and contracted for	8,099	12,468
Approved but not contracted for	4,558	6,003
	12,657	18,471

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

22. Contingent liability

As at 31 December 2017, the Company's total amount of bank guarantees to third parties was RM10,885,000 (2016: RM10,002,000).

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)	16
Loans and borrowings (non-current)	17

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 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 2017, 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 2017, 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.

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

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
2017			
Financial liabilities:			
Trade and other payables	52,514	-	52,514
Loans and borrowings	-	1,215,514	1,215,514
Total undiscounted financial liabilities	52,514	1,215,514	1,268,028
2016			
Financial liabilities:			
Trade and other payables	45,650	-	45,650
Loans and borrowings	-	1,141,379	1,141,379
Total undiscounted financial liabilities	45,650	1,141,379	1,187,029

(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.

<u>Sensitivity analysis for interest rate risk</u>

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 (2016: 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").

The Company's sales and 17% (2016: 12%) 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 RM1,323,000 (2016: RM536,000).

Notes to the Financial Statements for the Financial Year Ended 31 December 2017 (cont'd.)

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 net of tax	
			2017	**2016**
			RM'000	**RM'000**
USD/RM	-	strengthened 3% (2016: 3%)	(6,628)	(5,780)
	-	weakened 3% (2016: 3%)	6,628	5,780

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	2017	2016
		RM'000	**RM'000**
Loss net of tax		(63,421)	(113,086)
Add: Cumulative preferential dividends	7	74,135	76,645
ROACE numerator		10,714	(36,441)
Capital employed - opening		466,311	502,752
Capital employed - closing		477,025	466,311
Capital employed - average		471,668	484,532
ROACE		2%	-8%

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 2016.

26. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 29 March 2018.