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financial statements

directors' report

The Directors hereby submit their report and the audited financial statements of the Company for the year ended 31 December 2004.

Principal Activities

The principal activities of the Company consist of refining and manufacturing of petroleum products. There has been no significant change in these activities during the year.

Financial Results

	RM'000
Profit after taxation	670,344

Dividends

The dividends paid by the Company since 31 December 2003 were as follows:

	RM'000
In respect of the year ended 31 December 2003 as shown in the Directors' report of that year:	
Final gross dividend of 20 sen per RM 1 unit of share, less tax at 28%, paid on 4 June 2004	43,200
In respect of the year ended 31 December 2004:	
Special interim gross dividend of 10 sen per RM 1 unit of share, less tax at 28%, paid on 4 June 2004 in respect of the first quarter of the financial year ended 31 December 2004	21,600
Interim gross dividend of 10 sen per RM 1 unit of share, less tax at 28%, paid on 8 October 2004	21,600
Special interim gross dividend of 10 sen per RM 1 unit of share, less tax at 28%, paid on 24 December 2004 in respect of the third quarter of the financial year ended 31 December 2004	21,600

The Directors now recommend the payment of a final gross dividend of 35 sen per RM 1 unit of share less income tax, amounting to RM 75,600,000 which, subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, will be paid on 10 June 2005 to shareholders registered on the Record of Depositors at the close of business on 27 May 2005.

Reserves and Provisions

All material transfers to or from reserves and provisions during the year are shown in the financial statements.

directors' report

Parent Companies

The N.V. Koninklijke Nederlandsche Petroleum Maatschappij ('Royal Dutch Petroleum Company') and The "Shell" Transport and Trading Company, plc ('Shell Transport') (collectively referred to as the Parent Companies) do not themselves directly engage in operational activities. They are public companies; Royal Dutch Petroleum Company is domiciled in the Netherlands, Shell Transport in the United Kingdom. The Parent Companies own shares in the Group Holding Companies but are not themselves directly part of the Royal Dutch/Shell Group of Companies. They appoint Directors to the Boards of the Group Holding Companies, from which they receive income in the form of dividends. The Parent Companies derive most of their income in this way. Royal Dutch has a 60% interest in the Group and Shell Transport has a 40% interest. Shell Overseas Holdings Limited, the immediate holding company of the Company, is one of the companies under the Group Holding Companies.

The Directors who have held office during the period since the date of the last report are as follows:

Dato' (Dr.) Yahya bin Ismail, DPMJ, DPCM, DPMP, KMN, PPT, PJK

Dato' Jaffar bin Ahmad Indot, DSNS, SMS

Tan Sri Saw Huat Lye, PSM, JMN, PMP

Tom de Jong (*Resigned w.e.f. 31 July 2004*)

Shahul Hamid bin Mohd Ismail (*Resigned as Executive Director and Managing Director w.e.f. 30 June 2004*)

Mohzani bin Abdul Wahab

Datuk Jonathan Chadwick, PGDK

Paulus Albertus Maria Gerla (*Resigned w.e.f. 30 November 2004*)

Lim Tau Kien (*Resigned w.e.f. 5 September 2004*)

Zainul Rahim bin Mohd Zain (*Alternate to Datuk Jonathan Chadwick*)

Raja Ahmad Murad bin Raja Bahrin (*Appointed as Executive Director and Managing Director w.e.f. 14 April 2004 and 1 July 2004 respectively*)

Mark Owen Stevens (*Appointed w.e.f. 16 August 2004*)

Thomas Michael Taylor (*Appointed w.e.f. 22 November 2004*)

The Directors retiring by rotation in accordance with Article 81(3) of the Company's Articles of Association are Datuk Jonathan Chadwick, Raja Ahmad Murad bin Raja Bahrin and Mohzani bin Abdul Wahab, all of whom, being eligible, offer themselves for re-election.

Mark Owen Stevens and Thomas Michael Taylor who were appointed as Directors of the Board under Article 81(9) of the Company's Articles of Association, retire and being eligible, offer themselves for re-election.

Tan Sri Saw Huat Lye, Dato' (Dr.) Yahya bin Ismail and Dato' Jaffar bin Ahmad Indot, being over seventy years of age, retires in accordance with Section 129 of the Companies Act, 1965 and offers themselves for re-appointment in accordance with Section 129 (6) of the said Act to hold office until the next Annual General Meeting of the Company.

Directors' Benefits

During and at the end of the year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate except for options over shares granted by the Parent Companies to eligible senior executives including certain Directors of the Company pursuant to the Senior Executive Share Option Scheme.

Since the end of the previous year, no Director has received or become entitled to receive any benefit (other than benefits disclosed as Directors' remuneration in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

directors' report

Directors' Interests

According to the register of Directors' shareholdings, the interests of the Directors who held office at the end of the year in the share capital of the Company and its related corporations were as follows:

(a) Interest in options over shares of Parent Companies under the Senior Executive Share Option Scheme:

Royal Dutch Petroleum Company ordinary shares EURO 0.56 each

	Options outstanding 1.1.2004	Options granted	Options exercised	Options expired	Options outstanding 31.12.2004
Raja Ahmad Murad bin Raja Bahrin	5,275	1,800	0	0	7,075
Mohzani bin Abdul Wahab	13,775	7,750	0	0	21,525
Zainul Rahim bin Mohd Zain	20,100	5,500	0	0	25,600

The Shell Transport and Trading Company, p.l.c ordinary shares GBP 0.25 each

	Options outstanding 1.1.2004	Options granted	Options exercised	Options expired	Options outstanding 31.12.2004
Datuk Jonathan Chadwick	379,500	151,200	0	45,187	485,513
Thomas Michael Taylor	199,000	42,000	0	0	241,000
Mark Owen Stevens	151,900	0	0	0	151,900

(b) Direct interest in shares of Parent Companies:

Royal Dutch Petroleum Company ordinary shares EURO 0.56 each

	At 1.1.2004	Bought	Sold	31.12.2004
Datuk Jonathan Chadwick	132	108	0	240

The Shell Transport and Trading Company, p.l.c ordinary shares GBP 0.25 each

	At 1.1.2004	Bought	Sold	31.12.2004
Datuk Jonathan Chadwick	18,928	334	0	19,262
Thomas Michael Taylor	4,770	0	0	4,770
Mark Owen Stevens	4,793	0	0	4,793

(c) None of the other Directors held any interest in the share capital or debentures of the Company or its related corporations.

directors' report

Statutory Information on the Financial Statements

Before the income statement and balance sheet were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company which has arisen since the end of the year which secures the liability of any other person; or
- (b) any contingent liability of the Company which has arisen since the end of the year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

- (a) the results of the Company's operations during the year were not substantially affected by any item, transaction or event of a material and unusual nature; and
- (b) there has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Company for the year in which this report is made.

Ultimate Holding Company

Pursuant to Section 169(10) of the Companies Act 1965, the Directors have regarded the Royal Dutch Petroleum Company, a company incorporated in the Netherlands as the ultimate holding company.

Auditors

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

On behalf of the Board, in accordance with a resolution of the Board of Directors dated 23 February 2005



RAJA AHMAD MURAD BIN RAJA BAHRIN
DIRECTOR



THOMAS MICHAEL TAYLOR
DIRECTOR

statement by directors

Pursuant to Section 169(15) of the Companies Act, 1965

We, Raja Ahmad Murad Bin Raja Bahrin and Thomas Michael Taylor, two of the Directors of Shell Refining Company (Federation of Malaya) Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 56 to 76 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of the results of the Company and of its cash flows for the year ended on that date in accordance with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

On behalf of the Board, in accordance with a resolution of the Board of Directors dated 23 February 2005



RAJA AHMAD MURAD BIN RAJA BAHRIN
 DIRECTOR



THOMAS MICHAEL TAYLOR
 DIRECTOR

declaration

Pursuant to Section 169(16) of the Companies Act, 1965

I, Thomas Michael Taylor, the Director primarily responsible for the financial management of Shell Refining Company (Federation of Malaya) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 56 to 76 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



THOMAS MICHAEL TAYLOR

Subscribed and solemnly declared by the abovenamed Thomas Michael Taylor at Kuala Lumpur in Malaysia on 23 February 2005, before me


 COMMISSIONER FOR OATHS
 25-3, Jalan Sri Hartamas 7,
 Taman Sri Hartamas,
 50480 Kuala Lumpur.



COMMISSIONER FOR OATHS

report of the auditors

To the Members of Shell Refining Company (Federation of Malaya) Berhad
(Company No. 3926U)

We have audited the financial statements set out on pages 56 to 76. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and applicable approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Company as at 31 December 2004 and of the results and cash flows of the Company for the year ended on that date;

and

- (b) 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.



PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants



LEE YOKE KHAI
(No. 1589/08/05 (J))
Partner of the firm

income statement

For the year ended 31 December 2004

	Note	2004 RM'000	2003 RM'000
Revenue		7,510,539	5,496,898
Cost of sales		(6,720,445)	(5,210,074)
Gross profit		790,094	286,824
Other operating income		14,095	19,823
Administrative expenses		(40,309)	(30,111)
Other operating expenses		(6,196)	(8,929)
Profit from operations	3	757,684	267,607
Finance cost	4	(15,776)	(17,983)
Profit before taxation		741,908	249,624
Taxation	5	(71,564)	(67,340)
Profit after taxation		670,344	182,284
<hr/>			
Gross dividends per RM 1 unit of share (sen)	6	65	25
<hr/>			
Earnings per RM 1 unit of share (sen) – basic	7	223.45	60.76

The accounting policies on pages 60 to 63 and the notes on pages 64 to 76 form part of these financial statements.

balance sheet

As at 31 December 2004

	Note	2004 RM'000	2003 RM'000
PROPERTY, PLANT AND EQUIPMENT	9	1,342,216	1,410,657
CURRENT ASSETS			
Inventories	10	627,331	384,567
Trade receivables		167,515	169,527
Other receivables and prepayments		5,534	6,119
Amounts receivable from related companies	11	730,543	481,862
Bank balances	12	164,869	1,179
Deposit with a licensed bank	12	0	10,050
TOTAL CURRENT ASSETS		1,695,792	1,053,304
CURRENT LIABILITIES			
Trade and other payables	13	352,171	434,767
Amounts payable to related companies	11	270,622	99,804
Bank balances	12	1,053	0
Current portion of term loan (unsecured)	15	91,200	91,200
TOTAL CURRENT LIABILITIES		715,046	625,771
NET CURRENT ASSETS		980,746	427,533
LESS: NON CURRENT LIABILITIES			
Deferred taxation	14	273,184	259,556
Term loan (unsecured)	15	486,400	577,600
TOTAL NON-CURRENT LIABILITIES		759,584	837,156
TOTAL NET ASSETS		1,563,378	1,001,034
CAPITAL AND RESERVES			
Share capital			
Authorised 300,000,000 units of ordinary shares of RM 1 each		300,000	300,000
Issued and fully paid 300,000,000 units of ordinary shares of RM 1 each		300,000	300,000
Revaluation reserve	16	15,738	15,738
Retained earnings		1,247,640	685,296
TOTAL CAPITAL AND RESERVES		1,563,378	1,001,034

The accounting policies on pages 60 to 63 and the notes on pages 64 to 76 form part of these financial statements.

statement of changes in equity

For the year ended 31 December 2004

	Note	Issued and fully paid ordinary shares of RM 1 each		Non- distributable	Distributable	Total RM'000
		Number of shares '000	Nominal value RM'000	Revaluation reserve RM'000	Retained earnings RM'000	
At 1 January 2003		300,000	300,000	15,738	546,212	861,950
Profit after taxation for the year ended 31 December 2003				0	182,284	182,284
Dividends for the year ended:						
- 31 December 2002				0	(32,400)	(32,400)
- 31 December 2003	6			0	(10,800)	(10,800)
At 31 December 2003		300,000	300,000	15,738	685,296	1,001,034
At 1 January 2004		300,000	300,000	15,738	685,296	1,001,034
Profit after taxation for the year ended 31 December 2004				0	670,344	670,344
Dividends for the year ended:						
- 31 December 2003	6			0	(43,200)	(43,200)
- 31 December 2004	6			0	(64,800)	(64,800)
At 31 December 2004		300,000	300,000	15,738	1,247,640	1,563,378

The accounting policies on pages 60 to 63 and the notes on pages 64 to 76 form part of these financial statements.

cash flow statement

For the year ended 31 December 2004

	Note	2004 RM'000	2003 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit after taxation		670,344	182,284
Adjustments for:			
Taxation		71,564	67,340
Depreciation of property, plant and equipment		115,016	106,623
Turnaround cost capitalised		(11,705)	0
Gain on disposal of property, plant and equipment		0	(22)
Property, plant and equipment written (back)/off		(1,048)	287
Interest income		(4,151)	(922)
Interest expense		12,344	14,635
Exchange losses on foreign currency translation		163	1,686
		852,527	371,911
Changes in working capital:			
(Increase)/decrease in inventories		(242,764)	12,055
Decrease/(increase) in trade and other debtors		2,597	(45,667)
Decrease in trade and other creditors		(97,537)	(51,016)
Increase in amounts receivable from related companies		(248,681)	(45,665)
Increase/(decrease) in amounts payable to related companies		170,818	(51,193)
Cash generated from operations		436,960	190,425
Interest paid		(12,114)	(14,748)
Interest received		4,151	922
Taxation paid		(45,801)	(3,542)
Net cash flow from operating activities		383,196	173,057
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(33,822)	(18,664)
Proceeds from sales of fixed assets		0	92
Net cash flow used in investing activities		(33,822)	(18,572)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of term loan		(91,200)	(91,200)
Repayment of short term borrowings		0	(8,948)
Dividends paid		(105,587)	(43,304)
Net cash flow used in financing activities		(196,787)	(143,452)
NET INCREASE IN CASH AND CASH EQUIVALENTS		152,587	11,033
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		11,229	196
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	163,816	11,229

The accounting policies on pages 60 to 63 and the notes on pages 64 to 76 form part of these financial statements.

summary of significant accounting policies

For the year ended 31 December 2004

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

A Basis of Preparation

The financial statements of the Company have been prepared under the historical cost convention (as modified for the revaluation of land, land improvements and buildings), unless otherwise indicated in this summary of significant accounting policies.

The financial statements comply with the applicable approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the applicable approved accounting standards and the provisions of the Companies Act, 1965 requires the Directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported year. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from those estimates.

B Revenue Recognition

(i) Revenue

Revenue represents the invoiced value of refined and partially refined oil products and feedstocks, net of Government taxes.

Revenue is recognised upon delivery of products and acceptance by customers.

(ii) Other income

Other income comprises mainly of capital and operating expenditure recoveries from related companies and interest income, which are recognised on an accrual basis.

C Property, Plant and Equipment

All property, plant and equipment are initially stated at cost.

Land and buildings are subsequently shown at Directors' valuation which is based on a professional valuation in 1990 using the open market value basis for land, and depreciated replacement cost method for land improvements and building, less accumulated depreciation. The land and buildings of the Company have not been revalued since the last valuation exercise as the Directors have not adopted a policy of regular revaluations of such assets.

Accordingly, the valuation of the revalued assets has not been updated and they continue to be stated at their last revalued amounts less depreciation as allowed under the transitional provisions issued by Malaysian Accounting Standards Board ('MASB').

Surpluses arising on revaluation are credited to revaluation reserve. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to income statement. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

summary of significant accounting policies

For the year ended 31 December 2004

C Property, Plant and Equipment (Cont'd)

All other property, plant and equipment are stated at historical costs less accumulated depreciation.

- (i) No depreciation is provided for freehold land and work-in-progress.
- (ii) All other property, plant and equipment are depreciated on a straight line basis calculated to write off their costs, or their revalued amounts, over their estimated useful lives at the following annual rates:

Land improvements and buildings	2.5% – 10.0%
Plant and machinery	4.0% – 7.0%
Furniture and equipment	10.0% – 15.0%
Motor vehicles	25.0% – 33.3%

When an indication of impairment exists, the carrying amount of the asset is assessed and written down immediately to its recoverable amount. Please refer to accounting policy (O) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit from operations.

D Maintenance Costs

Asset replacement costs incurred by the Company for major scheduled maintenance of the refinery are capitalised as part of the refinery assets and depreciated on a straight line basis over their estimated useful lives, typically the period until the next major scheduled maintenance.

During the financial year, the Company has changed its accounting policy in respect of major scheduled maintenance cost, as above, which in prior years were charged to the income statement. As the amounts involved are not material, the retrospective impact of this change amounting to approximately RM 11 million has been included in the determination of the profit for the current financial year.

E Borrowings

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Interest, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the income statement.

Interest incurred on external borrowings related to assets under construction is capitalised until the assets are ready for their intended use.

F Inventories

- (i) Inventories are valued at the lower of cost and net realisable value using the first-in-first-out (FIFO) method.
- (ii) Cost in the case of partially refined oil and finished products includes oil, direct materials, labour and an appropriate proportion of fixed and variable manufacturing overheads.
- (iii) Net realisable value is the estimate of selling price in the ordinary course of business, less the cost of completion and selling expenses.

summary of significant accounting policies

For the year ended 31 December 2004

G Receivables

Receivables are carried at anticipated realisable value. Bad debts are written off during the year in which they are identified. An estimate is made for doubtful debts based on a review of all outstanding amounts at year end.

H Taxation

- (i) Current taxation is based on chargeable profit for the year and represents income tax at current rates and real property gains taxes payable on disposal of properties.
- (ii) Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.
- (iii) Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.
- (iv) Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

I Foreign Currencies

The basis of accounting for foreign currency transactions is as follows:

- (i) Monetary assets and liabilities denominated in foreign currencies at the balance sheet date have been translated at the rates of exchange ruling at that date, unless hedged by foreign exchange forward contracts, in which case the rates specified in such forward contracts are used.
- (ii) Transactions in foreign currencies have been converted at rates approximating those ruling at transaction dates, unless hedged by foreign exchange forward contracts, in which case the rates specified in such forward contracts are used.
- (iii) Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

The principal closing rates used in translation of foreign currency amounts are as follows:

Foreign currency	2004	2003
USD 1.0000	RM 3.8000	RM 3.8000
EURO 1.0000	RM 5.1812	RM 4.7764

J Employee Benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave, sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company's post-employment benefit scheme comprises only of the defined contribution plan.

Contributions to the Employees' Provident Fund, which is a defined contribution plan, are charged to the income statement when incurred.

summary of significant accounting policies

For the year ended 31 December 2004

K Operating Lease

Leases of assets under which the significant risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

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

L Cash and Cash Equivalents

Cash and cash equivalents comprise cash, bank balances, deposits with licensed banks, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Bank overdrafts are included within short term borrowings in current liabilities on the balance sheet.

M Dividends

Dividend on ordinary shares are accounted for in shareholders' equity as an appropriation of retained earnings in the year in which they are declared.

N Financial Instruments

(i) Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statements associated with each item.

(ii) Financial instruments not recognised on the balance sheet

The Company may enter into foreign exchange forward contracts to hedge foreign currency exposures as a result of confirmed receipts or payments in foreign currency. Any gain or loss arising from contracts entered into as hedges of anticipated future transactions is deferred until the date of such transactions, at which time it is included in the measurement of such transactions. All other exchange gains and losses relating to hedge instruments are recognised in the income statement in the same period as the exchange differences on the underlying hedged items.

The Company does not use interest rate swap instruments.

(iii) Fair value estimation for disclosure purpose

The fair values of the financial assets (less any estimated credit adjustments) and liabilities maturing within 12 months approximate the carrying value as at the balance sheet date. For long term financial liabilities, fair value is estimated by discounting future contractual cash flows at appropriate interest rates. The fair value of foreign exchange forward contracts is determined using forward exchange markets rates at the balance sheet date.

O Impairment of Assets

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

The impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

notes to the financial statements

For the year ended 31 December 2004

1 General Information

The principal activities of the Company consist of refining and manufacturing of petroleum products.

The average number of employees during the year amounted to 276 (2003: 277) employees in the Company.

The ultimate holding company of the Company is N.V. Koninklijke Nederlandsche Petroleum Maatschappij ('Royal Dutch Petroleum Company'), a company incorporated in the Netherlands.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and listed on the Main Board of the Malaysia Securities Exchange Berhad.

The address of the registered office of the Company is:

Bangunan Shell Malaysia
Changkat Semantan
Damansara Heights
50490 Kuala Lumpur

The address of the principal place of business of the Company is:

Batu 1, Jalan Pantai
71000 Port Dickson
Negeri Sembilan

2 Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks, including foreign currency exchange risk, interest rate risk, credit risk, liquidity and cash flow risk. The Company's overall financial risk management objective is to ensure the Company creates value for its shareholders. The Company focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Financial risk management is carried out through risk reviews, assurance plans, internal control systems, insurance programmes and adherence to the Company's Treasury Policy and Procedures.

The Company may enter into foreign exchange forward contracts to manage the exposure to foreign currency risks in receivables and payables. In addition, financial instruments such as trade receivables, trade payables, short term and long term borrowings arise directly from the Company's operations. The Company does not trade in financial instruments.

(i) Foreign currency risk

The Company is exposed to currency risk as a result of the foreign currency transactions entered into in currencies other than its functional currency. The Company may enter into foreign exchange forward contracts to limit its exposure on foreign currency receivables and payables and on cash flows generated from anticipated transactions denominated in foreign currencies.

(ii) Interest rate risk

The Company finances its operations through a mixture of retained earnings and bank borrowings. The Company aims to achieve an optimum balance between fixed and floating interest rates.

(iii) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Company seeks to control credit risk by setting counterparty limits and ensuring that sales of products are made only to approved customers with an appropriate credit history. It is the Company's policy to monitor the financial standing of the customers on an ongoing basis to ensure that the Company is exposed to minimal credit risk.

notes to the financial statements

For the year ended 31 December 2004

2 Financial Risk Management Objectives and Policies (Cont'd)

(iv) Liquidity and cash flow risk

The Company ensures that cash is available to meet working capital expenditure and other financing requirements, and that cash flows are managed efficiently. This is done through reliable cash forecasts to achieve optimal cash management planning. The Company sets a minimum level of cash to be held on a daily basis and on a planned level for the next 12 months, in order to meet both firm commitments and forecast obligations. In addition, the Company maintains an adequate amount of short-term credit facilities.

3 Profit from Operations

	2004 RM'000	2003 RM'000
The profit from operations is arrived at after charging/(crediting):		
Auditors' remuneration		
– Statutory Audit – current year	189	122
– under accrual in prior year	0	28
– Others – current year	25	16
– under accrual in prior year	0	24
Depreciation of property, plant and equipment	115,016	106,623
Property, plant and equipment written (back)/off	(1,048)	287
Rental of land and buildings	5	8
Exchange gains on foreign currency transactions	(969)	(1,423)
Exchange losses on foreign currency translation	163	1,686
Interest income	(4,151)	(922)
Staff cost		
– Wages, salaries & bonus	29,955	28,099
– Defined contribution retirement plan	9,933	2,339
– Defined benefit retirement plan	229	4
– Other employee benefits/staff welfare	2,793	2,421
Allowance for doubtful debts	222	81

4 Finance Cost

	2004 RM'000	2003 RM'000
Interest expense		
– short term borrowings	450	2,559
– term loans	11,894	12,076
Commitment fees	3,432	3,348
	15,776	17,983

notes to the financial statements

For the year ended 31 December 2004

5 Taxation

	2004 RM'000	2003 RM'000
Income tax in respect of current year	58,015	5,181
Over accrual of prior years income tax	(79)	(3,250)
Transfer from deferred taxation (Note 13)	13,628	65,409
	71,564	67,340
Current tax		
– Current year	58,015	40,509
– Benefit from previously unrecognised capital allowances	0	(35,328)
	58,015	5,181
– Over accrual in prior years	(79)	(3,250)
Deferred tax		
– Origination and reversal of temporary differences	13,628	21,181
– Deferred tax recognised due to adjustment to capital allowance rates	0	44,228
	13,628	67,340

The numerical reconciliation between the effective tax rate and the applicable tax rate is as follows:

	2004 %	2003 %
Applicable tax rate	28	28
Tax effect in respect of:		
Deferred tax recognized due to adjustment to capital allowances rates	0	17
Previously unrecognized capital allowances	0	(14)
Over accrual of prior years income tax	0	(1)
Expenses not deductible for tax purpose	1	2
Utilisation of reinvestment allowances	(19)	(5)
Effective tax rate	10	27

Subject to the agreement by the tax authorities, the Company has an Exempt Income Account as at 31 December 2004 amounting to approximately RM 789,094,000 (2003: RM 304,797,000) and also has sufficient tax credit balance under Section 108(6) Account to frank up to approximately RM 142,360,000 (2003: RM 344,966,000) of its retained earnings as at 31 December 2004.

notes to the financial statements

For the year ended 31 December 2004

6 Dividends

	2004 RM'000	2003 RM'000
Special interim gross dividend of 10 sen per RM 1 unit of share less tax at 28% paid on 4 June 2004 (2003: nil)	21,600	0
Interim gross dividend of 10 sen per RM 1 unit of share less tax at 28% paid on 8 October 2004 (2003: 5 sen per RM 1 unit of share less tax at 28%)	21,600	10,800
Special interim gross dividend of 10 sen per RM 1 unit of share less tax at 28%, paid on 24 December 2004 (2003: nil)	21,600	0
Proposed final gross dividend of 35 sen per RM 1 unit of share less tax at 28% (2003: 20 sen per RM 1 unit of share less tax at 28%)	75,600	43,200
	140,400	54,000
Gross dividend per RM 1 unit of share	65 sen	25 sen

These financial statements do not reflect the proposed final dividend which will be accounted for in the shareholders equity as an appropriation of retained earnings in the year in which the dividends are approved by the shareholders.

7 Earnings per Unit of Share

Basic earnings per share of the Company is calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Net profit for the year (RM'000)	670,344	182,284
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	223.45	60.76

8 Directors' Remuneration

	2004 RM'000	2003 RM'000
Fees	103	102
Wages, salaries & bonus	837	554
Defined contribution retirement plan	126	59
Defined benefit retirement plan	0	4
	1,015	719

The estimated monetary value of benefits provided to Directors during the year by way of usage of the Company's assets and the provision of accommodation and other benefits amounted to RM 57,395 (2003: RM 37,500).

notes to the financial statements

For the year ended 31 December 2004

9 Property, Plant and Equipment

	Freehold Land RM'000	Leasehold Land RM'000	Land improvements RM'000	Buildings RM'000	Plant, machinery, equipment and vehicles RM'000	Work-in- progress RM'000	Total RM'000
2004							
Cost or valuation:							
At 1 January							
– Cost	14,949	0	10,328	95,629	2,265,028	19,513	2,405,447
– Valuation	36,194	0	14,461	15,366	0	0	66,021
	51,143	0	24,789	110,995	2,265,028	19,513	2,471,468
Additions	0	0	0	0	35,643	26,651	62,294
Capitalisation	979	0	0	1,766	9,151	(11,896)	0
Written back/(off)	243	0	0	0	(503)	0	(260)
Reclassification	(2,111)	2,111	0	0	0	0	0
At 31 December	50,254	2,111	24,789	112,761	2,309,319	34,268	2,533,502
Accumulated depreciation:							
At 1 January	0	0	17,230	34,106	1,009,475	0	1,060,811
Charge for the year	0	16	505	5,123	126,140	0	131,784
Written off	0	0	0	0	(1,309)	0	(1,309)
At 31 December	0	16	17,735	39,229	1,134,306	0	1,191,286
Net book value							
at 31 December	50,254	2,095	7,054	73,532	1,175,013	34,268	1,342,216
Cost or valuation							
at 31 December:							
Cost	14,811	2,095	3,797	66,832	1,174,159	35,122	1,296,816
Valuation	35,443	0	3,257	6,700	0	0	45,400
	50,254	2,095	7,054	73,532	1,174,159	35,122	1,342,216
Net book value							
at 31 December							
had revalued assets been carried at cost							
less depreciation	14,391	0	2,510	4,705	0	0	21,606

notes to the financial statements

For the year ended 31 December 2004

9 Property, Plant and Equipment (Cont'd)

2003	Freehold land RM'000	Land improvements RM'000	Buildings RM'000	Plant, machinery, equipment and vehicles RM'000	Work-in- progress RM'000	Total RM'000
Cost or valuation:						
At 1 January						
- Cost	13,917	10,328	90,079	2,254,525	19,814	2,388,663
- Valuation	36,194	14,461	15,366	0	0	66,021
	50,111	24,789	105,445	2,254,525	19,814	2,454,684
Additions	0	0	0	0	18,664	18,664
Capitalisation	1,032	0	5,550	12,383	(18,965)	0
Disposal	0	0	0	(307)	0	(307)
Written off	0	0	0	(1,573)	0	(1,573)
At 31 December	51,143	24,789	110,995	2,265,028	19,513	2,471,468
Accumulated depreciation:						
At 1 January						
Charge for the year	0	511	5,026	101,086	0	106,623
Disposal	0	0	0	(237)	0	(237)
Written off	0	0	0	(1,286)	0	(1,286)
At 31 December	0	17,230	34,106	1,009,475	0	1,060,811
Net book value at 31 December	51,143	7,559	76,889	1,255,553	19,513	1,410,657
Cost or valuation at 31 December:						
Cost	14,949	4,301	69,717	1,255,553	19,513	1,364,033
Valuation	36,194	3,258	7,172	0	0	46,624
	51,143	7,559	76,889	1,255,553	19,513	1,410,657
Net book value at 31 December						
had revalued assets been						
carried at cost less depreciation	15,384	2,562	5,053	0	0	22,999

The valuation of the land and buildings was carried out in 1990 by a firm of professional valuers. The bases of valuation were as follows:

- (i) Freehold land - open market value
- (ii) Land improvements and buildings - depreciated replacement cost

Surplus arising from the valuation has been credited to revaluation reserve (Note 16).

notes to the financial statements

For the year ended 31 December 2004

10 Inventories

	2004 RM'000	2003 RM'000
Inventories comprise:		
At cost		
Crude oil	316,467	197,844
Partially refined oil	170,748	104,610
Finished products	116,587	58,694
	603,802	361,148
Materials	23,529	23,419
	627,331	384,567

11 Amount Receivable From/Payable to Related Companies

Amounts receivable from/payable to related companies are unsecured, interest free with no fixed term of repayment.

12 Cash and Cash Equivalents

	2004 RM'000	2003 RM'000
Bank balances	(1,053)	1,179
Deposit with a licensed bank	0	10,050
Funds placed with a related company	164,869	0
	163,816	11,229

All balances are denominated in Ringgit Malaysia.

The bank balances do not bear interest.

The maturity period of the deposit with a licensed bank is Nil (2003: 2 days). Bank balances are deposits held at call with banks.

The funds placed with a related company bears interest at a rate of 2.55% per annum (2003 : Nil)

13 Trade and Other Payables

	2004 RM'000	2003 RM'000
Trade payables and accruals	244,548	364,139
Accruals for materials and contract payments	33,134	19,498
Accruals for interest expense	697	467
Non-trade payables and accruals	57,423	48,843
Dividends payable	2,852	437
Tax payable	13,517	1,383
	352,171	434,767

notes to the financial statements

For the year ended 31 December 2004

14 Deferred Taxation

	2004 RM'000	2003 RM'000
Deferred tax assets	3,263	200
Deferred tax liabilities	(276,447)	(259,756)
As at 31 December	(273,184)	(259,556)
As at 1 January	(259,556)	(194,147)
(Charged)/credited to income statement:		
– property, plant and equipment	(16,736)	(65,565)
– allowance for doubtful debts	59	200
– unrealised losses/(gains)	45	(44)
– other provision	3,004	0
	(13,628)	(65,409)
As at 31 December	(273,184)	(259,556)
Deferred tax liabilities (before offsetting)		
– property, plant and equipment	(276,446)	(259,712)
– unrealised gains/losses	(1)	(44)
Offsetting	3,263	200
As at 31 December (after offsetting)	(273,184)	(259,556)
Deferred tax assets (before offsetting)		
– allowance for doubtful debts	259	200
– other provision	3,004	0
Offsetting	(3,263)	(200)
As at 31 December (after offsetting)	0	0

As at 31 December 2004, there is no other deductible temporary differences, unused tax credit or unused tax losses of which deferred tax asset is recognized.

15 Term Loan (Unsecured)

	2004 RM'000	2003 RM'000
As at 1 January	668,800	760,000
Repayment during the year	(91,200)	(91,200)
As at 31 December	577,600	668,800

The Company has a USD 330,000,000 loan to finance a capital expenditure project. The original term loan carried interest at rates which varies according to prevailing SIBOR+0.315%. The repayment of the loan commenced on 15 September 2000 in sixteen quarterly instalments of USD 20,000,000 and a final repayment of USD 10,000,000 on 15 September 2004. Starting from 15 December 2001, the repayment of the loan was revised to nineteen quarterly instalments of USD 6,000,000 and a final repayment of USD 116,000,000 on 15 September 2006. The interest rate for the revised period is SIBOR+0.4%. The interest rates applicable to the loan ranged from 1.49% to 2.90% per annum (2003: 1.51% to 1.83% per annum) during the year. The interest rate which was effective as at the balance sheet date was 2.90% per annum. (2003: 1.57% per annum).

notes to the financial statements

For the year ended 31 December 2004

15 Term Loan (Unsecured) (Cont'd)

The term loans are repayable over the following period:

	2004 RM'000	2003 RM'000
Within one year	91,200	91,200
Between one to five years	486,400	577,600
As at 31 December	577,600	668,800

16 Revaluation Reserve

The revaluation reserve represents the surplus on revaluation of land, land improvements and buildings carried out in 1990 (Note 9) and is not available for distribution to the shareholders by way of dividends.

17 Significant Related Parties Transactions

In the normal course of business, the Company undertakes, on an arm's length basis, a variety of transactions with certain companies each of whom shares a common ultimate holding company (Royal Dutch Petroleum Company). The material related party transactions between the Company and these entities are described below:

	2004 RM'000	2003 RM'000
Income:		
Sale of refined products to:		
– Shell Malaysia Trading Sendirian Berhad	4,706,088	3,503,184
– Shell International Eastern Trading Co.	838,885	351,164
– Shell Timur Sendirian Berhad	1,013,960	890,333
– Shell Eastern Chemicals Singapore	314,545	200,425
– Shell Gas Trading (Asia Pacific) Inc.	8,674	38,958
– Sarawak Shell Berhad	0	0
– The Shell Company of Thailand Ltd	143,050	29,730
Tariff revenue on the use of properties/facilities:		
– Shell Malaysia Trading Sendirian Berhad	14,009	17,203
Recoveries and rebates:		
– Shell Global Solutions International B.V.	2,298	6,124

notes to the financial statements

For the year ended 31 December 2004

17 Significant Related Parties Transactions (Cont'd)

	2004 RM'000	2003 RM'000
Expenses:		
Purchase of crude and products from:		
– Shell Eastern Trading (Pte) Ltd	(25,438)	(1,660)
– Sarawak Shell Berhad	(1,657,758)	(1,241,198)
– Shell International Eastern Trading Co.	(3,268,668)	(2,312,082)
– Sabah Shell Petroleum Company Ltd	(996,511)	(748,916)
– Shell Gas Trading (Asia Pacific) Inc.	0	(15,311)
– Shell Malaysia Trading Sendirian Berhad	(1,309)	(5,884)
– Shell Company of Thailand	(63)	0
– Shell Companies of Australia	(198)	0
– Shell Eastern Petroleum Limited	(637)	0
– Shell Middle Distillate Synthesis Sdn Bhd	(198)	0
– Showa Shell Sekiyu	(561)	0
– Shell European	(1,041)	0
– Société des Pétroles Shell	(326)	0
Central management and administrative expenses:		
– Shell Malaysia Trading Sendirian Berhad	(11,166)	(8,670)
– Shell Malaysia Limited	(28)	0
– Shell Global Solutions International B.V.	(26,382)	(3,572)
– Shell Eastern Petroleum Limited	(165)	1,234
– Shell International Oil Product	(4,801)	(5,815)
– Shell Response Limited	(687)	(320)
– ATRACC Sendirian Berhad	(534)	(515)
Amounts paid to related companies for Directors' services:		
– Shell Malaysia Trading Sendirian Berhad	0	(261)
– Shell Malaysia Limited	(183)	(97)
– Sarawak Shell Berhad	(105)	(214)
IT support and administrative expenses:		
– Shell Information Technology International Sendirian Berhad	(2,134)	(2,859)
– Shell Information Technology International B.V.	(14)	(59)

notes to the financial statements

For the year ended 31 December 2004

18 Contingent Liabilities

- (a) In December 1996, employees were given the option of either remaining in the Shell Malaysia Retirement Benefit Fund (SMRBF) or transferring to a defined contribution scheme (DCS). In conjunction with this, certain assets of the SMRBF were transferred to the Shell Malaysia Provident Fund (SMPF). The transfers were effective 1 May 1997. Arising from the transfer of assets from the SMRBF to the SMPF, the Company has provided guarantees to members in relation to:
- (i) the capital sum transferred;
 - (ii) a minimum return of 2.5% per annum on that capital sum; and
 - (iii) death in service benefits.

The Company, as a Member Company of the SMPF, has supported the resolution of the Founding Company that the SMPF shall come to an end on 31 December 2003 ("Closure Date") and that members' balances in SMPF as at Closure Date be transferred to the Employees' Provident Fund. With such transfer of members' balances, the Company no longer provides guarantees to members in relation to (i) and (ii) above. Death in service benefit for the ex-SMRBF members will continue to be guaranteed by the Company.

Based on the information currently available, it is not possible to estimate the likely outcome of the liabilities with regards to death in service benefits as the liabilities are dependent on individual circumstances.

- (b) The Company is a member of two oil spill funds, namely the Contract Regarding a Supplement to Tanker Liability for Oil Pollution (CRISTAL) Fund and the International Oil Pollution Compensation (IOPC) 1971 Fund. The purpose of the Funds is to help compensate parties that have suffered financial losses as a result of oil spill from tankers. The members make contributions to the Funds depending on specific oil spill incidents globally which give rise to payments of compensation by the Funds. As of the date of this report, there are no material claims outstanding.

19 Leasing Commitments

Leasing commitments under non-cancellable operating leases at the balance sheet date are as follows:

	2004 RM'000	2003 RM'000
Not later than 1 year	6	5
Later than 1 year and not later than 5 years	0	0
	6	5

20 Capital Commitments

Approved capital expenditure for property, plant and equipment not provided for in the financial statements are as follows:

	2004 RM'000	2003 RM'000
Approved and contracted for	3,596	1,168
Approved but not contracted for	3,563	28,135
	7,159	29,303

notes to the financial statements

For the year ended 31 December 2004

21 Segmental Information

The Company is principally engaged in the oil and gas industry namely refining and manufacturing of petroleum products in Malaysia. Accordingly, no segmental information is considered necessary for analysis by industry segments or by geographical segment.

22 Financial Instruments

(i) Foreign exchange forward contracts

During the financial year, the Company did not enter into any foreign exchange forward contracts.

(ii) Credit risk

As at 31 December 2004, approximately RM 429,795,000 (2003: RM 321,643,000) and RM 113,078,000 (2003: RM 88,697,000) of the Company's total receivables were from Shell Malaysia Trading Sendirian Berhad and Shell Timur Sendirian Berhad respectively.

These receivables represent approximately 51% (2003: 63%) of the Company's total receivables. These receivables are denominated in Ringgit Malaysia and are current balances as at the date of this report. There is no significant concentration of credit risk from amounts receivable outside the Shell group of companies.

The credit terms of trade receivables ranged from payment in advance to 30 days.

The Company's trade payables are unsecured. In accordance with the terms of the supply agreements, interest of 0% to 1.5% per month was charged for late payments. The credit terms for trade payables ranged from no credit to 45 days.

(iii) Fair values

The carrying amounts of financial assets and liabilities of the Company at the balance sheet date approximated their fair values.

(iv) Balances denominated in foreign currencies

The Company's financial assets and liabilities denominated in foreign currencies are set out below:

(RM'000 equivalent)	Balances as at 31.12.2004		
	USD	EURO	Others
Trade Receivables	281,488	0	0
Other receivables & prepayments	4	0	0
Amounts receivable from related companies	1,804,044	31	67
Amounts payable to related companies	(156,287)	(11)	(55)
Trade and other payables	(86,176)	(3,610)	(1,380)
Current portion of term loan	(91,200)	0	0
Term loan (unsecured)	(486,400)	0	0
	(1,108,199)	(3,590)	(1,368)

notes to the financial statements

For the year ended 31 December 2004

22 Financial Instruments (Cont'd)

(iv) Balances denominated in foreign currencies (Cont'd)

	Balances as at 31.12.2003		
	USD	EURO	Others
(RM'000 equivalent)			
Trade Receivables	67,988	0	0
Other receivables & prepayments	6	0	27
Amounts receivable from related companies	463,388	6,347	(14)
Amounts payable to related companies	(39)	(36)	(3)
Trade and other payables	(58,597)	(3,563)	(830)
Current portion of term loan	(91,200)	0	0
Term loan (unsecured)	(577,600)	0	0
	(196,054)	2,748	(820)

23 Approval of Financial Statements

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 23 February 2005.