

# Financial Statement

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# Directors' Report

The Directors are pleased to submit their annual report to the members together with and the audited financial statements of the Company for the year ended 31 December 2006.

## 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

	<b>RM'000</b>
Profit after taxation	258,217

## DIVIDEND

The dividends paid by the Company since 31 December 2005 were as follows:

	<b>RM'000</b>
In respect of the year ended 31 December 2005 as shown in the Directors' report of that year:	
Special Interim gross dividend of 20 sen per RM1 unit of share	
less tax at 28%, paid on 26 April 2006	43,200
Final gross dividend of 38 sen per RM1 unit of share,	
less tax at 28%, paid on 9 June 2006	82,080
In respect of the year ended 31 December 2006:	
Special Interim gross dividend of 20 sen per RM1 unit of share,	
less tax at 28%, paid on 23 June 2006 in respect of the quarter end 31 March 2006.	43,200
Special interim gross dividend of 20 sen per RM1 unit of share,	
less tax at 28%, paid on 29 Sept 2006 in respect of the quarter end 30 June 2006.	43,200
Interim gross dividend of 12 sen per RM1 unit of share,	
less tax at 28%, paid on 29 Sept 2006 in respect of the quarter end 30 June 2006.	25,920

The Directors now recommend the payment of a final gross dividend of 38 sen per RM1 unit of share less income tax of 27%, amounting to RM83,220,000 which, subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company, will be paid on 15 June 2007 to shareholders registered on the Record of Depositors at the close of business on 28 May 2007.

## RESERVES AND PROVISIONS

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

## Directors' Report

### DIRECTORS

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 Indot, DSNS, SMS  
Tan Sri Saw Huat Lye, PSM, JMN, PMP  
Tn. Hj. Mohzani bin Abdul Wahab, SMP, ASDK  
Raja Ahmad Murad bin Raja Bahrin  
Mark Owen Stevens  
Thomas Michael Taylor  
Saw Choo Boon (Appointed w.e.f. 23 February 2006)  
Datuk Jonathan Chadwick, PGDK (Resigned w.e.f. 18 May 2006)

The Directors retiring by rotation in accordance with Article 81(3) of the Company's Articles of Association are Mr. Saw Choo Boon, YM Raja Ahmad Murad bin Raja Bahrin and Mr. Mark Owen Stevens, all of whom, being eligible, offer themselves for re-election.

In 2006, Tan Sri Saw Huat Lye, Dato' (Dr) Yahya bin Ismail and Dato' Jaffar Indot being over seventy years of age, retired in accordance with Section 129 of the Companies Act, 1965 and offered themselves for re-appointment in accordance with Section 129 (6) of the said Act to hold office until the 48<sup>th</sup> Annual General Meeting of the Company. For 2007, Dato' (Dr) Yahya bin Ismail will not offer himself for re-election. Tan Sri Saw Huat Lye and Dato' Jaffar Indot being over seventy years of age, will retire in accordance with Section 129 of the Companies Act, 1965 and offer themselves for re-appointment in accordance with Section 129 (6) of the said Act to hold office until the 49<sup>th</sup> 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 Shell Group to eligible senior executives including certain Directors of the Company.

#### Long-term incentives

The Shell Group discontinued share option grants in 2005 in favour of conditional share awards under an amended Long Term Incentive Plan (LTIP) and an amended Deferred Bonus Plan, approved by both Shell Transport and Royal Dutch Petroleum Company shareholders at the Annual General Meetings on 28 June 2005. For a selected number of the most senior executives in the Shell Group, restricted non-conditional shares were also awarded. The purpose of the changes was to ensure a closer link between the remuneration of Directors and executives and the performance of the Shell Group relative to its peers.

## Directors' Report

### DIRECTORS' BENEFITS (CONTINUED)

#### Long term Incentive Plan (LTIP)

Under the LTIP, performance shares are awarded conditionally once a year. Awards will have a face value between zero and two and a half times base pay. Awards are subject to performance over a period of at least three years. The shares are only released if the performance condition is met and if the participant remains in employment during the performance period (subject to certain exceptions, including retirement). For 2005 and 2006 onwards, the number of shares that the Directors will actually receive will depend on the Total Shareholder Return (TSR) performance of the Parent Company relative to the other major integrated oil companies as follows:

TSR Rank	Performance shares received
1st	2 X award
2nd	1.5 X award
3rd	0.8 X award
4th or 5th	Nil

The actual number of shares the Directors will receive in 2008 will depend on the Parent Company's TSR performance over the period 2005 to 2007. The face value of the conditional performance share award is the number of shares multiplied by the share price at the time of the award.

### DIRECTORS' LONG-TERM INCENTIVE INTEREST

The tables below show the LTIP and the share options interest of the Directors' in office as at end of period. Those awards and grants listed in the tables which were made with respect to Royal Dutch Petroleum Company and Shell Transport shares, have been converted into Royal Dutch Shell share entitlements at the appropriate conversion rates. Other than consequential changes, the terms and conditions applicable to these awards and grants have generally not been altered as a result of this conversion.

(a) Interest in options over shares of the Parent Company.

#### Interest in options over shares in Royal Dutch Shell plc

	Options outstanding at 1.1.2006	Options granted	Options exercised	Options expired	Options outstanding 31.12.2006
Raja Ahmad Murad bin Raja Bahrin	14,150	0	0	0	14,150
Saw Choo Boon	64,200	0	0	0	64,200
Thomas Michael Taylor	57,263	0	28,158	0	29,105
Mark Owen Stevens	38,816	0	0	0	38,816
Mohzani bin Abdul Wahab	40,650	0	10,800	0	29,850

## Directors' Report

### DIRECTORS' LONG-TERM INCENTIVE INTEREST (CONTINUED)

- (b) Direct interest in shares of the Parent Company.

The Directors' direct interest in shares of Royal Dutch Petroleum Company and Shell Transport, have been converted into the Parent Company's shares entitlements at the appropriate conversion rates.

	Class of shares	Direct interest in shares of Royal Dutch Shell plc			At 31.12.2006
		At 1.1.2006	Bought	Sold	
Saw Choo Boon	RDSA (LTIP)	6,250	6,375	0	12,625
Thomas Michael Taylor	RDSA	1,370	0	1,370	0
	RDSB (LTIP)	3,000	3,000	0	6,000
Mark Owen Stevens	RDSB	1,424	30	0	1,454
	RDSB (LTIP)	7,500	7,500	0	15,000
Mohzani bin Abdul Wahab	RDSA (LTIP)	3,400	3,000	0	6,400
Raja Ahmad Murad bin Raja Bahrin	RDSA (LTIP)	1,700	2,000	0	3,700

- (c) According to the register of Directors' shareholdings, no other Directors in office at the end of the financial year held any interest in shares in and debentures of the Company or its related corporations.

### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

- 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
- 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:

- 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
- which would render the values attributed to current assets in the financial statements of the Company misleading; or
- 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.

## Directors' Report

### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

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.

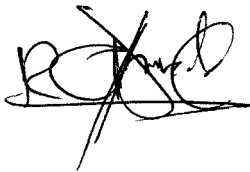
### ULTIMATE HOLDING COMPANY

Pursuant to Section 169(10) of the Companies Act 1965, the Directors have regarded the Royal Dutch Shell plc, a company incorporated in England and Wales and has its headquarters in The Hague, 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 26 March 2007.



**RAJA AHMAD MURAD BIN RAJA BAHRIN**  
MANAGING DIRECTOR



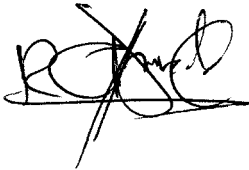
**SAW CHOO BOON**  
CHAIRMAN

## Statement by Directors

PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Raja Ahmad Murad Bin Raja Bahrin and Saw Choo Boon, 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 77 to 99 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2006 and of the results of the Company and of its cash flows for the year ended on that date in accordance with Financial Reporting Standards, MASB approved accounting standards in Malaysia for Entities Other than Private Entities and the provisions of the Companies Act, 1965.

On behalf of the Board, in accordance with a resolution of the Board of Directors dated 26 March 2007.



**RAJA AHMAD MURAD BIN RAJA BAHRIN**  
MANAGING DIRECTOR



**SAW CHOO BOON**  
CHAIRMAN

## Declaration

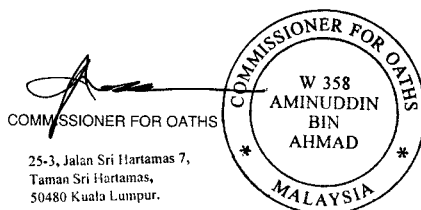
PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

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 77 to 99 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**  
DIRECTOR

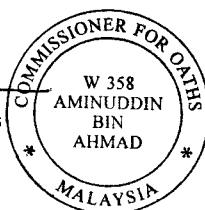
Subscribed and solemnly declared by the abovenamed Thomas Michael Taylor at Kuala Lumpur in Malaysia on 11 April 2007, before me



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. 3926 U)

We have audited the financial statements set out on pages 77 to 99. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

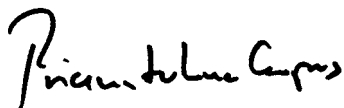
We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities 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 2006 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. 1589/08/07 (J))

Partner of the firm

# Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 RM'000	2005 RM'000
Revenue	3	<b>10,886,840</b>	9,695,133
Cost of sales		<b>(10,480,336)</b>	(8,952,566)
Gross profit		<b>406,504</b>	742,567
Other operating income		<b>20,174</b>	27,457
Administrative expenses		<b>(48,419)</b>	(41,441)
Other operating expenses		<b>(21,278)</b>	(22,784)
Finance cost	5	<b>(31,596)</b>	(23,877)
Profit before taxation	4	<b>325,385</b>	681,922
Taxation	6	<b>(67,168)</b>	(159,790)
Profit after taxation		<b>258,217</b>	522,132
<hr/>			
Gross dividends per RM1 unit of share (sen)	7	<b>90</b>	100
<hr/>			
Earnings per RM1 unit of share (sen) – basic	8	<b>86.07</b>	174.04

The accounting policies on pages 81 to 86 and the notes on pages 87 to 99 form part of these financial statements.

# Balance Sheet

AS AT 31 DECEMBER 2006

	Note	2006 RM'000	2005 RM'000
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	10	1,247,716	1,315,312
Prepaid land lease payments		2,031	2,074
		<b>1,249,747</b>	1,317,386
<b>CURRENT ASSETS</b>			
Inventories	11	829,706	673,128
Trade receivables	12	128,685	103,631
Other receivables and prepayments		30,311	5,320
Amounts receivable from related companies	13	1,127,598	880,175
Bank balances	14	43,009	14,947
Deposit with licensed banks	14	0	647,929
		<b>2,159,309</b>	2,325,130
<b>LESS: CURRENT LIABILITIES</b>			
Trade and other payables	15	92,943	190,936
Amounts payable to related companies	13	569,076	732,304
Short term borrowings	18	83,880	0
		<b>745,899</b>	923,240
<b>NET CURRENT ASSETS</b>		<b>1,413,410</b>	1,401,890
<b>LESS: NON CURRENT LIABILITIES</b>			
Deferred taxation	17	227,387	267,456
Long term borrowings	18	493,780	529,130
Provision for liabilities	16	2,183	3,500
		<b>723,350</b>	800,086
		<b>1,939,807</b>	1,919,190
<b>CAPITAL AND RESERVES</b>			
Share capital	20	300,000	300,000
Revaluation reserve	19	15,738	15,738
Retained earnings		1,624,069	1,603,452
<b>TOTAL CAPITAL AND RESERVES</b>		<b>1,939,807</b>	1,919,190

The accounting policies on pages 81 to 86 and the notes on pages 87 to 99 form part of these financial statements.

# Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	Issued and fully paid ordinary shares of RM1 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 2005		300,000	300,000	15,738	1,247,640	1,563,378
Profit after taxation for the year ended 31 December 2005				0	522,132	522,132
Dividends for the year ended:						
- 31 December 2004	7			0	(75,600)	(75,600)
- 31 December 2005	7			0	(90,720)	(90,720)
At 31 December 2005		300,000	300,000	15,738	1,603,452	1,919,190
At 1 January 2006		<b>300,000</b>	<b>300,000</b>	<b>15,738</b>	<b>1,603,452</b>	<b>1,919,190</b>
Profit after taxation for the year ended 31 December 2006				0	258,217	258,217
Dividends for the year ended:						
- 31 December 2005	7			0	(125,280)	(125,280)
- 31 December 2006	7			0	(112,320)	(112,320)
At 31 December 2006		<b>300,000</b>	<b>300,000</b>	<b>15,738</b>	<b>1,624,069</b>	<b>1,939,807</b>

The accounting policies on pages 81 to 86 and the notes on pages 87 to 99 form part of these financial statements.

# Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 RM'000	2005 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit after taxation		258,217	522,132
Adjustments for:			
Taxation		67,168	159,790
Depreciation of property, plant and equipment		110,349	123,458
Loss/(gain) on disposal of property, plant and equipment		105	(64)
Property, plant and equipment written off		0	11,581
Provision for decommissioning and site restoration cost		0	3,500
Interest income		(8,310)	(9,841)
Interest expense		29,662	20,327
Exchanges gain on foreign currency translation		(22,108)	(2,995)
		<b>435,083</b>	<b>827,888</b>
Changes in working capital:			
Increase in inventories		(156,578)	(45,797)
(Increase)/decrease in trade and other debtors		(25,022)	64,098
Increase/(decrease) in trade and other creditors		15,420	(51,058)
Increase in amounts receivable from related companies		(247,423)	(149,632)
(Decrease)/increase in amounts payable to related companies		(163,228)	319,831
Cash generated from operations		(141,748)	965,330
Interest paid		(28,926)	(20,247)
Interest received		8,310	9,841
Taxation paid		(175,072)	(136,224)
Net cash flow from operating activities		(337,436)	818,700
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(42,834)	(105,620)
Proceeds from sales of fixed assets		0	64
Decommissioning and restoration costs		(1,317)	0
Net cash flow used in investing activities		(44,151)	(105,556)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		0	(45,600)
Dividends paid		(237,189)	(168,484)
Net cash flow used in financing activities		(237,189)	(214,084)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(618,776)</b>	<b>499,060</b>
<b>CURRENCY TRANSLATION DIFFERENCES</b>		<b>(1,091)</b>	<b>0</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>662,876</b>	<b>163,816</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	14	<b>43,009</b>	<b>662,876</b>

The accounting policies on pages 81 to 86 and the notes on pages 87 to 99 form part of these financial statements.

# Summary of Significant Accounting Policies

FOR THE YEAR ENDED 31 DECEMBER 2006

Unless otherwise stated, 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 Financial Reporting Standards, the MASB approved accounting standards in Malaysia for Entities other than Private Entities and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with the Financial Reporting Standards, the MASB Approved Accounting Standards in Malaysia for entities other than private entities and provisions of the Companies Act, 1965 requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported financial year. It also requires Directors to exercise its judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

### (a) Standards, amendments to published standards and interpretations that are effective

The new accounting standards, amendments to published standards and IC interpretations to existing standards effective for Company's financial year beginning on or after 1 January 2006 are as follows:

- FRS 2 Share-based payment
- FRS 5 Non-current assets held for sale and presentation of discontinued operations
- FRS 101 Presentations of financial statements
- FRS 102 Inventories
- FRS 108 Accounting policies, changes in accounting estimates and errors
- FRS 110 Events after balance sheet date
- FRS 116 Property, plant and equipment
- FRS 117 Leases
- FRS 132 Financial instruments: disclosure and presentation
- FRS 136 Impairment of assets
- FRS 138 Intangible assets
- IC 115 Operating leases – incentives
- IC 121 Income taxes – Recovery of revalued non-depreciable assets
- IC 125 Income taxes – Changes in the tax status of an entity of its shareholders
- IC 127 Evaluating the substance of transactions involving the legal form of a Lease

All changes in accounting policies have been made in accordance with the transition provisions in the respective standards, amendments to published standards and interpretations. All standards, amendments and interpretations adopted by the Company require retrospective application other than:

- FRS 2 – retrospective application for all equity instruments granted after 31 December 2004 and not vested at 1 January 2006;
- FRS 5 – prospectively for non-current asset (or disposal group) that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on/after 1 January 2006;
- FRS 116 – the exchange of property, plant and equipment is accounted at fair value prospectively;

## Summary of Significant Accounting Policies

FOR THE YEAR ENDED 31 DECEMBER 2006

### A BASIS OF PREPARATION (CONTINUED)

#### (b) Standards early adopted by the Company

FRS 117 Leases was early adopted in 2006. This standard requires the reclassification of leasehold land as prepaid lease payments.

Finance charges are allocated to the income statement over the period of the agreements to give constant periodic rate of charge on the remaining lease liabilities.

#### (c) Standards, amendments to published standards and interpretations to existing standard that are not yet effective and have not been early adopted

The new accounting standards, amendments to published standards and interpretations that are mandatory for the Company's financial periods beginning on or after 1 January 2007 or later periods, but which the Company has not early adopted, are as follows:

- FRS 124, Related party transactions (effective date 1 October 2006). This new standard defines a disclosure relating to the related party transactions and relationship. The Company will apply this standard when effective.
- FRS 139, Financial Instruments: Recognition and measurement (effective date yet to be determined by MASB). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Company will apply this standard when effective.

### 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 the 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.

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.

## Summary of Significant Accounting Policies

FOR THE YEAR ENDED 31 DECEMBER 2006

### C PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (ii) Residual values and useful lives of assets are reviewed and adjusted if appropriate at each balance sheet date.

The Company conducted a review of the Useful Economic Life (UEL) of its property, plant and equipment. This revision, with effect from 1 January 2006, has resulted in changes to the annual depreciation rates of the Company's assets as follows:

	Existing	Revised
Land improvements and buildings	2.5% – 10.0%	2.5% – 5.0%
Plant and machinery	4.0% – 7.0%	3.3% – 25.0%
Furniture and fittings	10.0% – 15.0%	7.0% – 20.0%

The revision was accounted for as change in accounting estimates and as a result, the depreciation charges for 31 December 2006 has been reduced by an estimated RM17,137,618.

At each balance sheet date, the Company assesses whether there is any indication of impairment. 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 (P) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit from operations. On disposal of revalued assets, amounts in revaluation reserve relating to those assets are transferred to retained earnings.

### 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.

### 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 interest 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.

During the year, the Company automated the hydrocarbon inventory valuation process. Due to refinements to the cost allocation for manufactured products, there was a change in the cost allocation for purposes of inventory costing resulting in a change in accounting estimate. The impact was an increase of RM8.5 million to the current year profits.

## Summary of Significant Accounting Policies

FOR THE YEAR ENDED 31 DECEMBER 2006

### 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 PROVISIONS

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

The Company has recognised the estimated liability of decommissioning and site restoration costs in relation to the company's manufacturing units. The estimation of the decommissioning and restoration costs is based on current technology, on the assumption that the underlying costs of the restoration will not change dramatically in the future due to supply and demand or other economic factors.

### I 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.

### J FOREIGN CURRENCIES

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

- (i) Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.
- (ii) Foreign currency transactions are translated into the functional currency using the prevailing exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.
- (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	2006	2005
1 USD	<b>RM3.53</b>	RM3.78
1 EURO	<b>RM4.64</b>	RM4.49

## Summary of Significant Accounting Policies

FOR THE YEAR ENDED 31 DECEMBER 2006

### **K 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.

### **L 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.

### **M 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.

### **N DIVIDENDS**

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date. Upon the dividend becoming payable, it will be accounted for as a liability.

### **O 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. These instruments are not recognised in the financial statements on inception. The Company enters into foreign currency forward contracts to protect the Company from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses on contracts are recognised when settled at which time they are included in the measurement of the transaction hedged.

The Company does not use interest rate swap instruments.

## Summary of Significant Accounting Policies

FOR THE YEAR ENDED 31 DECEMBER 2006

### **O FINANCIAL INSTRUMENTS (CONTINUED)**

#### **(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.

### **P 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 2006

## 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 281 (2005: 275) employees in the Company.

The ultimate holding company of the Company is Royal Dutch Shell plc, a company incorporated in England and Wales.

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.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

#### (iii) Credit risk

Credit risk arises when sales are made on deferred credit terms. The Company controls 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.

#### (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 REVENUE

	2006 RM'000	2005 RM'000
Sale of oil products		
– refined	9,024,632	8,194,951
– partially refined	1,414,192	1,174,060
– feed stocks	448,016	326,122
	<b>10,886,840</b>	9,695,133

### 4 PROFIT BEFORE TAX

	2006 RM'000	2005 RM'000
The profit from operations is arrived at after charging/(crediting):		
Auditors' remuneration		
– current year	179	180
– over accrual in prior year	0	(8)
– Others – current year	21	52
– Others – under accrual in prior year	0	30
Depreciation of property, plant and equipment	110,349	123,458
Property, plant and equipment written off	0	11,581
Loss/(gain) on disposal of property, plant and equipment	105	(64)
Exchange gains on foreign currency transactions	(10,727)	(1,238)
Exchange gain on foreign currency translation	(22,108)	(2,995)
Interest income	(8,310)	(9,841)
Staff cost		
– Wages, salaries & bonus	38,260	31,126
– Defined contribution retirement plan – current year	3,774	6,386
– Defined contribution retirement plan – over accrual in prior year	0	(3,238)
– Other employee benefits/staff welfare	3,703	2,835
Write back of allowance for doubtful debts	(93)	(297)

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

**5 FINANCE COST**

	2006 RM'000	2005 RM'000
Interest expense		
– short term borrowings	2,805	30
– term loans	26,857	20,297
Commitment fees	1,914	3,550
Finance charges – lease	20	0
	<b>31,596</b>	23,877

**6 TAXATION**

	2006 RM'000	2005 RM'000
Current tax	107,237	165,518
Deferred tax	(40,069)	(5,728)
	<b>67,168</b>	159,790
Current tax		
– Current year	107,237	165,791
– Over accrual in prior years	0	(273)
Deferred tax		
– Origination and reversal of temporary differences	(40,069)	(5,728)
	<b>67,168</b>	159,790

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

	2006 %	2005 %
Applicable tax rate	28	28
Tax effect in respect of:		
Income not taxable	(3)	0
Expenses not deductible for tax purpose	1	1
Utilization of reinvestment allowances	0	(6)
Effect of changes in tax rate	(5)	0
Effective tax rate	<b>21</b>	23

Subject to the agreement by the tax authorities, the Company has a Section 108(6) Account of RM280,812,222 (2005: RM209,818,291) and an Exempt Income Account of RM918,370,701 (2005: RM918,371,000) as at 31 December 2006. The Company is able to pay out all of its retained earnings as at 31 December 2006 (2005: all of its retained earnings as at 31 December 2005) without incurring additional tax expense.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 7 DIVIDENDS

	2006 RM'000	2005 RM'000
Special Interim gross dividend of 20 sen per RM1 unit of share less tax at 28%, paid on 26 April 2006 (2004: nil)	43,200	0
Final gross dividend of 38 sen per RM1 unit of share, less tax at 28%, paid on 9 June 2006 (2004: 35 sen per RM1 unit of share less tax at 28%)	82,080	75,600
	<b>125,280</b>	75,600
2005: Interim gross dividend 10 sen per RM1 unit of share less tax at 28% paid on 22 June 2005	0	21,600
Special Interim gross dividend of 20 sen per RM1 unit of share less tax at 28% paid on 23 June 2006 (2005: 20 sen per RM1 unit of share less at 28%)	43,200	43,200
Special Interim gross dividend of 20 sen per RM1 unit of share less tax at 28% paid on 29 Sept 2006 (2005: nil)	43,200	0
Interim gross dividend of 12 sen per RM1 unit of share less tax 28% paid on 29 Sept 2006 (2005: 12 sen per RM1 unit of share less tax at 28%)	25,920	25,920
	<b>112,320</b>	90,720
2005: Proposed special interim gross dividend of 20 sen per RM1 unit of share less tax at 28%	0	43,200
Proposed final gross dividend of 38 sen per RM1 unit of share less tax at 27% (2005: 38 sen per RM1 unit of share less tax at 28%)	83,220	82,080
	<b>195,540</b>	216,000
Gross dividend per RM1 unit of share	<b>90 sen</b>	100 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.

### 8 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.

	2006	2005
Net profit for the year (RM'000)	258,217	522,132
Weighted average number of ordinary shares in issue ('000)	300,000	300,000
Basic earnings per share (sen)	<b>86.07</b>	174.04

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

## 9 DIRECTORS' REMUNERATION

	2006 RM'000	2005 RM'000
Fees	119	120
Wages, salaries & bonus	576	563
Defined contribution retirement plan	88	81
	<b>783</b>	<b>764</b>

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 RM27,360 (2005: RM39,628).

## 10 PROPERTY, PLANT AND EQUIPMENT

2006	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
<b>Cost or valuation:</b>						
At 1 January						
- Cost	14,811	10,117	111,451	2,264,615	61,141	2,462,135
- Valuation	35,443	0	4,913	0	0	40,356
	<b>50,254</b>	<b>10,117</b>	<b>116,364</b>	<b>2,264,615</b>	<b>61,141</b>	<b>2,502,491</b>
Additions	0	0	0	14,279	28,579	42,858
Capitalisation	0	0	14,432	28,633	(43,065)	0
Disposal	0	0	0	(243)	0	(243)
Written off	0	0	0	(37)	0	(37)
Reclassification	0	5,176	(26,973)	21,797	0	0
At 31 December	<b>50,254</b>	<b>15,293</b>	<b>103,823</b>	<b>2,329,044</b>	<b>46,655</b>	<b>2,545,069</b>
<b>Accumulated depreciation:</b>						
At 1 January	0	6,840	42,801	1,137,538	0	1,187,179
Charge for the year	0	2,376	3,323	104,650	0	110,349
Disposal	0	0	0	(138)	0	(138)
Written off	0	0	0	(37)	0	(37)
Reclassification	0	3,821	(7,711)	3,890	0	0
At 31 December	<b>0</b>	<b>13,037</b>	<b>38,413</b>	<b>1,245,903</b>	<b>0</b>	<b>1,297,353</b>
Net book value at 31 December	<b>50,254</b>	<b>2,256</b>	<b>65,410</b>	<b>1,083,141</b>	<b>46,655</b>	<b>1,247,716</b>

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	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
<b>2006 (Cont'd)</b>						
<b>Cost or valuation at 31 December:</b>						
Cost	14,811	2,256	60,644	1,083,141	46,655	1,207,507
Valuation	35,443	0	4,766	0	0	40,209
	50,254	2,256	65,410	1,083,141	46,655	1,247,716
Net book value at 31 December						
had revalued assets been						
carried at cost less depreciation	14,391	172	3,999	18	0	18,580

	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
<b>2005</b>						
At 1 January						
– Cost	14,811	10,328	97,410	2,309,319	34,268	2,466,136
– Valuation	35,443	14,461	15,351	0	0	65,255
	50,254	24,789	112,761	2,309,319	34,268	2,531,391
Additions	0	0	0	0	110,209	110,209
Capitalisation	0	0	7,078	72,758	(83,336)	(3,500)
Disposal	0	0	0	(174)	0	(174)
Written off	0	(14,672)	(3,475)	(120,788)	0	(138,935)
At 31 December	50,254	10,117	116,364	2,261,115	61,141	2,498,991

#### Accumulated

<b>depreciation:</b>						
At 1 January	0	17,735	39,229	1,134,306	0	1,191,270
Charge for the year	0	499	5,570	113,868	0	119,937
Disposal	0	0	0	(174)	0	(174)
Written off	0	(11,394)	(1,998)	(113,962)	0	(127,354)
At 31 December	0	6,840	42,801	1,134,308	0	1,183,679

Net book value

at 31 December	50,254	3,277	73,563	1,127,077	61,141	1,315,312
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## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

## 10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2005 (Cont'd)	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
<b>Cost or valuation at 31 December:</b>						
Cost	14,811	3,277	68,650	1,127,077	61,141	1,274,956
Valuation	35,443	0	4,913	0	0	40,356
	50,254	3,277	73,563	1,127,077	61,141	1,315,312
Net book value at 31 December						
had revalued assets been						
carried at cost less depreciation	14,391	2,445	4,141	0	0	20,977

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 19).

## 11 INVENTORIES

	2006	2005
	At net realisable value RM'000	At cost total RM'000
Crude oil	254,193	402,478
Partially refined oil	108,598	170,104
Finished products	179,042	76,455
	541,833	649,037
Materials	22,115	24,091
	563,948	673,128

The inventories value for the year includes the write-down to net realisable value of RM13,159,852.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 12 TRADE RECEIVABLES

Trade receivables are denominated in Ringgit Malaysia. The credit terms extended range between 15 to 30 days. The Company controls credit risk by setting counter party limits and ensuring sales of products are made to customers with appropriate credit history. Due to these factors, management believes that no additional credit risk beyond amounts allowed for collection losses is inherent in the Company's trade receivables.

### 13 AMOUNT RECEIVABLE FROM/PAYABLE TO RELATED COMPANIES

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

	2006 RM'000	2005 RM'000
Amount receivable from related companies consist of:		
Trade	1,125,500	879,047
Non trade	2,098	1,128
	<b>1,127,598</b>	880,175
Amount payable to related companies consist of:		
Trade	557,040	708,344
Non trade	12,036	23,960
	<b>569,076</b>	732,304

### 14 CASH AND CASH EQUIVALENTS

	2006 RM'000	2005 RM'000
Bank balances	43,009	14,947
Deposit with licensed banks	0	647,929
	<b>43,009</b>	662,876

The bank balances do not bear interest.

Nil deposit with licensed banks. The average maturity period of the deposit with licensed banks is 2 days (2005: 3 days). Bank balances are deposits held at call with banks.

The average interest rate per annum of deposits with licensed banks that was effective as at balance sheet date was 3.77% (2005: 2.62%)

### 15 TRADE AND OTHER PAYABLES

	2006 RM'000	2005 RM'000
Trade payables and accruals	7,274	88,415
Accruals for materials and contract payments	46,297	30,274
Accruals for interest expense	736	777
Non-trade payables and accruals	38,225	27,971
Dividends payable	411	688
Tax payable	0	42,811
	<b>92,943</b>	190,936

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

**16 PROVISION FOR LIABILITIES**

	2006 RM'000	2005 RM'000
As at 1 January	3,500	0
Provided during the year	0	3,500
Utilised during the year	(1,317)	0
As at 31 December	<b>2,183</b>	3,500

Decommissioning and site restoration costs are provided in relation to the Company's manufacturing units.

**17 DEFERRED TAXATION**

	2006 RM'000	2005 RM'000
Deferred tax assets	1,873	2,058
Deferred tax liabilities	(229,260)	(269,514)
As at 31 December	<b>(227,387)</b>	(267,456)
As at 1 January	<b>(267,456)</b>	(273,184)
Credited/(charged) to income statement:		
– property, plant and equipment	36,078	7,771
– allowance for doubtful debts	(26)	(95)
– unrealised (gains)/losses	4,176	(839)
– other provision	(159)	(1,109)
	<b>40,069</b>	5,728
As at 31 December	<b>(227,387)</b>	(267,456)
Deferred tax liabilities (before offsetting)		
– property, plant and equipment	(232,598)	(268,676)
– unrealised gains	3,338	(838)
Offsetting	1,873	2,058
As at 31 December (after offsetting)	<b>(227,387)</b>	(267,456)
Deferred tax assets (before offsetting)		
– allowance for doubtful debts	138	164
– other provision	1,735	1,894
Offsetting	(1,873)	(2,058)
As at 31 December (after offsetting)	<b>0</b>	0

As at 31 December 2006, there are no other deductible temporary differences, unused tax credit or unused tax losses of which deferred tax asset is recognised.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 18 BORROWINGS

The Company has a USD330,000,000 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 USD20,000,000 and a final repayment of USD10,000,000 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 USD116,000,000 on 15 September 2006. The interest rate for the revised period is SIBOR+0.4%. Starting from 15 June 2005, the repayment of the loan was again revised to twenty quarterly interest repayment and one final repayment of USD140,000,000 after five years. The interest rate for the revised period is SIBOR+0.16%. The interest rate applicable to the loan ranged from 5.19% to 5.61% per annum (2005: 3.21% to 4.66% per annum) during the year. The interest rate which was effective for the year was 5.53% per annum (2005: 4.66% per annum).

	2006 RM'000	2005 RM'000
Short term – revolving credit	83,880	0
Long term – term loan	493,780	529,130

The term loans are repayable over the following period:

Within one year	0	0
Between three to four years	493,780	0
Between four to five years	0	529,130
	493,780	529,130

The reduction of the long-term borrowing is due to the appreciation of RM against USD in 2006.

### 19 REVALUATION RESERVE

The revaluation reserve represents the surplus on revaluation of land, land improvements and buildings carried out in 1990 (Note 10) and is not available for distribution to the shareholders by way of dividends.

### 20 SHARE CAPITAL

	2006 RM'000	2005 RM'000
Authorised:		
Ordinary shares of RM1.00 each		
At start/end of financial year	300,000	300,000

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

**21 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 Shell plc). The material related party transactions between the Company and these entities are described below:

	2006 RM'000	2005 RM'000
Income:		
<b>Sale of refined products to:</b>		
- Shell Malaysia Trading Sendirian Berhad	7,221,444	6,268,741
- Shell International Eastern Trading Co.	1,507,149	1,211,643
- Shell Timur Sendirian Berhad	1,317,731	1,298,828
- Shell Eastern Chemicals Singapore	447,624	321,560
- The Shell Company of Thailand Ltd	110,767	69,282
<b>Tariff revenue on the use of properties/facilities:</b>		
- Shell Malaysia Trading Sendirian Berhad	14,543	14,198
<b>Recoveries and rebates:</b>		
- Shell Global Solutions International B.V.	0	2,602
- Shell Response Limited	0	349
Expenses:		
<b>Purchase of crude and products from:</b>		
- Shell Eastern Trading (Pte) Ltd	(11,181)	(7,986)
- Sarawak Shell Berhad	(790,159)	(1,235,406)
- Shell International Eastern Trading Co.	(8,951,470)	(6,371,050)
- Sabah Shell Petroleum Company Ltd	(90,192)	(916,067)
- Shell Malaysia Trading Sendirian Berhad	(138)	(535)
- Shell Company of Thailand	(6,090)	(6,090)
- Shell Eastern Petroleum Limited	(0)	(8)
- Shell Middle Distillate Synthesis Sdn Bhd	(369)	(6,285)
- Showa Shell Sekiyu	0	(337)
- Societe Des Petroles Shell	(1,606)	(2,787)
- Shell Lubricants Supply Company	(39,778)	(16,328)
<b>Central management and administrative expenses:</b>		
- Shell Malaysia Trading Sendirian Berhad	(11,183)	(18,198)
- Shell Malaysia Limited	(431)	(29)
- Shell Global Solutions International B.V.	(7,606)	(25,876)
- Shell Eastern Petroleum Limited	0	(357)
- Shell Shared Service Centre – KL Sdn Bhd	(453)	(735)
- Shell International Petroleum Company Limited	(14,385)	(11,694)
<b>Amounts paid to related companies for Directors' services:</b>		
- Shell Malaysia Limited	(305)	(147)
- Sarawak Shell Berhad	(113)	(330)
<b>IT support and administrative expenses:</b>		
- Shell Information Technology International Sendirian Berhad	(5,353)	(2,602)

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 22 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 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.

### 23 CAPITAL COMMITMENTS

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

	2006 RM'000	2005 RM'000
Approved and contracted for	3,665	3,068
Approved but not contracted for	3,052	12,460
	<b>6,717</b>	<b>15,528</b>

### 24 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.

### 25 FINANCIAL INSTRUMENTS

#### (i) Credit risk

As at 31 December 2006, approximately RM627,080,211 (2005: RM591,022,000) and RM157,609,444 (2005: RM153,549,000) of the Company's total receivables were from Shell Malaysia Trading Sendirian Berhad and Shell Timur Sendirian Berhad respectively.

These receivables represent approximately 62% (2005: 75%) 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. The credit terms for trade payables ranged from no credit to 45 days.

## Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2006

### 25 FINANCIAL INSTRUMENTS (CONTINUED)

#### (ii) Fair values

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

As at 31 December 2006, RM2,523,733 of total other receivables and prepayments were from car loan extended to staff and valued at RM1,664,675.

#### (iii) Balances denominated in foreign currencies

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

	Balances as at 31.12.2006		
	USD	EURO	Others
<b>(RM'000 equivalent)</b>			
Other receivables & prepayments	348	0	0
Amounts receivable from related companies	327,578	0	5
Bank balances	25,138	0	0
Deposit with licensed banks	0	0	0
Amounts payable to related companies	(497,618)	1,112	(19,101)
Trade and other payables	(25,992)	(146)	(11,672)
Long term borrowings	(493,780)	0	0
	<b>(664,326)</b>	<b>(966)</b>	<b>(30,768)</b>

	Balances as at 31.12.2005		
	USD	EURO	Others
<b>(RM'000 equivalent)</b>			
Amounts receivable from related companies	134,719	0	0
Bank balances	85	0	0
Deposit with licensed banks	81,738	0	0
Amounts payable to related companies	(452,819)	(11,624)	(7,168)
Trade and other payables	(77,149)	(1,143)	(2,532)
Long term borrowings	(529,130)	0	0
	<b>(842,556)</b>	<b>(12,767)</b>	<b>(9,700)</b>

### 26 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 26 March 2007.