

PARAMOUNT CORPORATION BERHAD

Interim Financial Report for the period ended 30 June 2018

The figures are unaudited

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR PERIOD ENDED 30 June 2018**

	3 Months Ended 30 June		6 Months Ended 30 June	
	2018 RM'000	2017 RM'000 (Restated)	2018 RM'000	2017 RM'000 (Restated)
Revenue	278,366	189,723	440,612	336,510
Operating profit	64,721	32,530	86,421	52,833
Interest expense	(5,500)	(3,784)	(9,778)	(6,180)
Interest income	1,590	840	2,188	1,359
Share of loss of associate & joint venture	(26)	(10)	(45)	(49)
Profit before tax	60,785	29,576	78,786	47,963
Taxation	(16,079)	(8,873)	(20,903)	(13,909)
Profit for the period	44,706	20,703	57,883	34,054
Profit attributable to:				
Ordinary equity holders of the Company	42,302	18,084	49,265	26,455
Non-controlling interest	784	1,007	1,969	1,007
Holder of private debt securities of the Company	1,620	1,612	6,649	6,592
	44,706	20,703	57,883	34,054
Earnings per share ("EPS") attributable to Ordinary equity holders of the Company (sen):				
Basic EPS	9.88	4.28	11.56	6.26
Diluted EPS	9.53	4.12	11.15	6.03

The Condensed Consolidated Income Statement should be read in conjunction with the Annual Financial Report for the Year Ended 31 December 2017.

PARAMOUNT CORPORATION BERHAD

Interim Financial Report for the period ended 30 June 2018

The figures are unaudited

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR PERIOD ENDED 30 June 2018**

	3 Months Ended 30 June		6 Months Ended 30 June	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
		(Restated)		(Restated)
Profit for the period	44,706	20,703	57,883	34,054
Other comprehensive income	43	(254)	(541)	194
Total comprehensive income for the period	44,749	20,449	57,342	34,248
Total comprehensive income attributable to:				
Ordinary equity holders of the Company	42,345	17,830	48,724	26,649
Non-controlling interest	784	1,007	1,969	1,007
Holder of private debt securities of the Company	1,620	1,612	6,649	6,592
	44,749	20,449	57,342	34,248

The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Annual Financial Report for the Year Ended 31 December 2017.

PARAMOUNT CORPORATION BERHAD

Interim Financial Report for the period ended 30 June 2018

The figures are unaudited

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	As at 30/6/2018	As at 31/12/2017	As at 1/1/2017
	RM'000	RM'000 (Restated)	RM'000 (Restated)
Non-current assets			
Property, plant and equipment	642,327	624,924	436,186
Land held for property development	668,262	800,238	870,967
Investment properties	191,995	204,787	177,750
Intangible assets	163,004	163,822	15,674
Investment in associates	9,282	9,907	10,220
Investment in joint venture	0	0	45
Other investments	7,873	310	340
Deferred tax assets	30,284	30,230	20,997
	<u>1,713,027</u>	<u>1,834,218</u>	<u>1,532,179</u>
Current assets			
Property development costs	312,268	175,833	95,504
Inventories	25,025	26,640	30,922
Trade receivables	107,142	132,323	54,259
Other receivables	137,390	42,862	17,192
Other current assets	174,244	154,069	144,284
Tax recoverable	13,836	8,177	8,964
Other investments	0	10,047	288
Cash and bank balances	130,670	141,409	149,176
	<u>900,575</u>	<u>691,360</u>	<u>500,589</u>
Assets held for sale	300	5,732	6,666
	<u>900,875</u>	<u>697,092</u>	<u>507,255</u>
Total assets	<u>2,613,902</u>	<u>2,531,310</u>	<u>2,039,434</u>
Current liabilities			
Borrowings	243,377	161,170	207,864
Trade payables	62,988	82,222	80,670
Other payables	169,536	209,471	103,857
Tax payable	12,079	5,058	1,994
Other current liabilities	69,332	65,130	71,956
	<u>557,312</u>	<u>523,051</u>	<u>466,341</u>
Net current assets	<u>343,563</u>	<u>174,041</u>	<u>40,914</u>
Non-current liabilities			
Borrowings	694,310	662,662	428,690
Deferred tax liabilities	26,887	28,777	4,903
	<u>721,197</u>	<u>691,439</u>	<u>433,593</u>
Total liabilities	<u>1,278,509</u>	<u>1,214,490</u>	<u>899,934</u>
Equity			
Share capital	307,904	305,215	303,238
Reserves	750,738	736,823	636,475
Equity attributable to ordinary equity holders of the Company	<u>1,058,642</u>	<u>1,042,038</u>	<u>939,713</u>
Non-controlling interests	76,964	74,995	0
Private debt securities	199,787	199,787	199,787
Total equity	<u>1,335,393</u>	<u>1,316,820</u>	<u>1,139,500</u>
Total equity and liabilities	<u>2,613,902</u>	<u>2,531,310</u>	<u>2,039,434</u>
Net assets (NA) per share (RM)	<u>2.47</u>	<u>2.46</u>	<u>2.22</u>

The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Financial Report for the Year Ended 31 December 2017.

PARAMOUNT CORPORATION BERHAD
Interim Financial Report for the period ended 30 June 2018

The figures are unaudited

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR PERIOD ENDED 30 June 2018**

	<-----Non Distributable----->			Distributable Retained Earnings RM'000	Non- controlling interests RM'000	Private debt securities RM'000	Total Equity RM'000
	Share Capital RM'000	Employee Share Reserve# RM'000	Translation Reserve RM'000				
As at 1 January 2018 (Restated)	305,215	7,139	55	729,629	74,995	199,787	1,316,820
Total comprehensive income	-	-	(541)	49,265	1,969	6,649	57,342
Transactions with owners							
Vesting of LTIP shares	2,689	(2,689)	-	-	-	-	-
Private debt securities distribution	-	-	-	-	-	(6,649)	(6,649)
Dividends	-	-	-	(32,120)	-	-	(32,120)
Total transactions with owners	2,689	(2,689)	-	(32,120)	-	(6,649)	(38,769)
As at 30 June 2018	307,904	4,450	(486)	746,774	76,964	199,787	1,335,393
As at 1 January 2017 (Restated)	303,238	4,271	87	632,117	-	199,787	1,139,500
Total comprehensive income	-	-	194	27,462	1,007	6,592	35,255
Transactions with owners							
Vesting of LTIP shares	1,951	(1,951)	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	46,656	-	46,656
Private debt securities distribution	-	-	-	-	-	(6,592)	(6,592)
Dividends	-	-	-	(25,458)	-	-	(25,458)
Total transactions with owners	1,951	(1,951)	-	(25,458)	46,656	(6,592)	14,606
As at 30 June 2017	305,189	2,320	281	634,121	47,663	199,787	1,189,361

- This represents reserve relating to fair valuation of restricted shares and performance shares under the long term incentive plan ("LTIP")

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the Year Ended 31 December 2017.

PARAMOUNT CORPORATION BERHAD

Interim Financial Report for the period ended 30 June 2018

The figures are unaudited

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR PERIOD ENDED 30 June 2018**

	6 Months Ended	
	30/6/2018 RM'000	30/6/2017 RM'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	78,786	47,963
Adjustment for:		
Non-cash items	13,521	11,419
Non-operating items	(35,595)	4,684
Operating profit before working capital changes	56,712	64,066
Increase in receivables	(18,053)	(23,879)
Increase in development properties	(15,688)	(7,413)
Decrease in inventories	1,349	23,597
Decrease in payables	(47,458)	(17,603)
Cash (used in)/generated from operations	(23,138)	38,768
Taxes paid	(19,550)	(15,076)
Interest paid	(23,414)	(14,080)
Net cash (used in)/generated from operating activities	(66,102)	9,612
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in land held for development	1,041	4,080
Purchase of property, plant and equipment	(28,143)	(21,700)
Purchase of unquoted investment	(7,563)	-
Purchase of investment properties	(2,786)	(3,049)
Acquisition of subsidiaries	-	(147,719)
Proceeds from disposal of property, plant and equipment	60	111
Proceeds from disposal of assets held for sale	5,432	211
Movement in other investment	10,047	288
Interest received	2,189	1,359
Net cash used in investing activities	(19,723)	(166,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to ordinary equity holders of the Company	(32,120)	(25,458)
Proceeds from borrowings	108,392	260,018
Issuance of Islamic Medium Term Notes	24,890	30,000
PDS distribution	(6,649)	(6,592)
Placements in banks restricted for use	(13,605)	(5,250)
Repayment of borrowings	(59,119)	(73,872)
Net cash generated from financing activities	21,789	178,846
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(64,036)	22,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	109,427	114,445
CASH AND CASH EQUIVALENTS AT END OF PERIOD	45,391	136,484
	30/6/2018	30/6/2017
	RM'000	RM'000
Cash and cash equivalents comprise:		
Cash and bank balances	105,522	127,441
Fixed deposits	25,148	43,325
Cash and bank balances	130,670	170,766
Cash and bank balances restricted for use	(14,757)	(11,000)
Fixed deposits restricted for use	(4,086)	-
Fixed deposits maturing more than 3 months	(18,461)	-
Overdrafts	(47,975)	(23,282)
	45,391	136,484
Cash and bank balances held in HDA accounts	49,663	93,726

The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Financial Report for the Year Ended 31 December 2017.

PARAMOUNT CORPORATION BERHAD
Interim Financial Report for the period ended 30 June 2018

The figures are unaudited

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134

A1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The financial statements of the Group for the financial year ending 31 December 2018 are the first set of financial statements prepared in accordance with the MFRS, including MFRS 1 . First-time Adoption of Malaysian Financial Reporting Standards. The impact of the transition to MFRS Framework on the Group’s reported financial position, financial performance and cash flows, arising from the adoption of *MFRS 15: Revenue from contracts with customer*, are disclosed in Note A2. Other than as disclosed in Note A2, the Group has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2017, being the transition date, and throughout all years presented, as if these policies had always been in effect.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2017. The explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2017.

A2. Changes in accounting policies

Except for the adoption of MFRS Framework and *MFRS 15: Revenue from contracts with customer* as mentioned above, the accounting policies and presentation adopted for this interim financial report are consistent with those adopted for the audited annual financial statements for the financial year ended 31 December 2017.

MFRS 15 - Revenue from contracts with customer

With the adoption of MFRS 15, revenue are recognised by reference to each distinct performance obligation in the contract with customer. Transaction price is allocated to each performance obligation on the basis of the relative standalone selling prices of each distinct good or services promised in the contract. Depending on the substance of the contract, revenue are recognised when the performance obligation is satisfied, which may be at a point in time or over time. The financial impact to the Group is shown in Appendix 1.

A3. Audit report qualification

The audit report for the financial year ended 31 December 2017 was not subject to any qualification.

A4. Seasonal or cyclical factors

The operations of the Group were not materially affected by any factor of a seasonal or cyclical nature.

A5. Exceptional or unusual items

Save for items disclosed in Note A9, there were no items of an exceptional or unusual nature that have affected the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial year to date.

A6. Changes in estimates of amounts reported previously

There were no significant changes in estimates in prior periods that have materially affected the current quarter and financial year to date results.

A7. Debt and equity securities

Save for item disclosed below, there were no other issuance, cancellation, repurchases, resale and repayments of debt and equity securities for the current quarter and financial year to date.

Employee share scheme

On 15 March 2018, the Company issued 3,976,000 shares to its eligible employees pursuant to the vesting of the Restricted Share Incentive Plan ("RS Award") and Performance-based Incentive Plan ("PS Award") of the Long Term Incentive Plan ("LTIP"). The details of the vested shares are as below:

	LTIP	Grant date	Vesting	No. of shares
(i)	2015 RS Award	13 March 2015	Third	811,900
(ii)	2016 RS Award	14 March 2016	Second	612,300
(iii)	2017 RS Award	13 March 2017	First	750,300
(iv)	2015 PS Award	13 March 2015	Final	1,801,500
				<u>3,976,000</u>

A8. Dividends paid

	6 months ended	
	30/6/2018	30/6/2017
	RM'000	RM'000
Special dividends		
2017 - 7.50 sen single tier	32,120	0
Final dividends		
2016 - 6.00 sen single tier	0	25,458
	<u>32,120</u>	<u>25,458</u>

A9. Profit before tax

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

	3 months ended 30 June		6 months ended 30 June	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Depreciation of:				
- Property, plant and equipment	5,747	5,775	11,496	10,402
- Investment properties	521	535	1,043	1,002
Amortisation of intangible assets	413	0	819	0
Additions/(reversal) of allowance for impairment of trade and other receivables	179	586	297	596
(Gain)/loss on disposal of:				
- Property, plant and equipment	(40)	(15)	(59)	(38)
- Land held for development	(43,170)	0	(43,170)	0
- Assets held for sale	0	0	0	(145)
Net derivative (gain)/loss on interest rate swap	70	2	40	17
Net foreign exchange (gain)/loss	(59)	141	(261)	(25)

Save for the items disclosed in the Income Statement and the note above, other items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

A10. Segment reporting for the current financial year to date

<u>Analysis by Business Segment</u>	Revenue		Profit before tax	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Property	301,137	230,740	64,844	35,165
Education	139,274	105,825	22,173	18,604
Investment & others	28,896	116,316	18,268	100,123
	469,307	452,881	105,285	153,892
Inter-segment elimination	(28,695)	(116,371)	(26,499)	(105,929)
	440,612	336,510	78,786	47,963

A11. Carrying amount of revalued assets

The valuations of property, plant and equipment and investment properties have been brought forward without amendments from the financial statements for the financial year ended 31 December 2017.

A12. Subsequent events

There were no material events subsequent to the end of the current quarter that have not been reflected in the interim financial report.

A13. Changes in composition of the Group

On 25 May 2018, the Company acquired one ordinary share, representing 100% of the issued share capital of Magna Intelligent Sdn Bhd for a total cash consideration of RM1.00.

A14. Changes in contingent assets and contingent liabilities

There were no contingent assets or contingent liabilities of the Group since the last annual reporting date.

A15. Capital commitment

The amount of commitments not provided for in the interim financial statements as at 30 June 2018 were as follows:

	RM'000
Approved and contracted for:-	
Land held for development	134,730
Payment under DRA (Note: B6(i))	150,000
Investment properties	9,176
Property, plant & equipment	56,365
	<u>350,271</u>
Approved but not contracted for:-	
Investment properties	9,915
Property, plant & equipment	90,347
	<u>100,262</u>
	<u>450,533</u>

A16. Capital expenditure

The major additions and disposals to the property, plant and equipment during the current quarter and financial year to date were as follows:

	Current Quarter RM'000	Financial Year-to-date RM'000
Property, plant and equipment Additions	<u>16,105</u>	<u>28,143</u>

A17. Related party transactions**Financial
Year-to-date
RM'000**

Rental charges paid to Damansara Uptown One Sdn Bhd, a company in which a brother of DatoqTeo Chiang Quan has substantial interest	435
Rental charges paid to Damansara Uptown Retail Centre Sdn Bhd, a company in which a brother of DatoqTeo Chiang Quan has substantial interest	53
Sale of properties to Datin Teh Geok Lian, Ms. Tay Lee Kong, Mr. Beh Chun Chong, and Mr. Wang Chong Hwa, directors of subsidiaries	3,018
Sale of property to Mr. Chew Sun Teong, Group CEO and a director of the Company	780
Sale of property to Mr. Benjamin Teo Jong Hian, the son of Dato' Teo Chiang Quan and a director of subsidiaries	781
Sale of property to Ms. Eunice Teo Wan Tian, the daughter of Dato' Teo Chiang Quan	641
Rental income received from Peoplender Sdn Bhd, a company in which Dato' Teo Chiang Quan and Mr. Chew Sun Teong have substantial interest	22
Rental charges paid to CF Land Sdn Bhd, a company in which Mr. Ee Ching Wah, Mr. Kee Keok Kuay and Dr. Sim Guan Seng, directors of subsidiaries have substantial interest	126
Rental charges paid to CNS Corporation Sdn Bhd, a company in which Dr. Sim Guan Seng, a director of subsidiaries has substantial interest	90
	<hr/>
	5,946
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The directors are of the opinion that all the above transactions have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of performance

2Q2018 vs 2Q2017

	2Q2018	2Q2017	Var.		6M2018	6M2017	Var.
	RM'000	RM'000	%		RM'000	RM'000	%
Revenue	278,366	189,723	47%		440,612	336,510	31%
Operating profit	64,721	32,530	99%		86,421	52,833	64%
Profit before interest & tax	64,695	32,520	99%		86,376	52,784	64%
Profit before tax	60,785	29,576	106%		78,786	47,963	64%
Profit after tax	44,706	20,703	116%		57,883	34,054	70%
Profit attributable to ordinary equity holders of the Company	42,302	18,084	134%		49,265	26,455	86%

For 2Q2018, the Group recorded a revenue of RM278.4 million, an increase of 47% compared with the corresponding quarter last year (2Q2017: RM189.7 million) while the profit before tax (PBT) was RM60.8 million (2Q2017: RM29.6 million).

Revenue of the property division had increased by 68% to RM209.9 million (2Q2017: RM124.7 million) while the PBT had increased by 163% to RM56.1 million (2Q2017: RM21.3 million). The improvement in revenue and PBT was mainly attributable to the disposal of 9.4 acres of industrial land in Kota Damansara which had contributed revenue and PBT of RM92.1 million and RM43.2 million, respectively (%KD Land Disposal). The KD Land Disposal was to unlock the value of the said land, and to utilise the cash proceeds to acquire new land bank that is able to generate higher returns within a shorter turnaround time and to reduce bank borrowings. Excluding the KD Land Disposal, the PBT for 2Q2018 was lower than the corresponding period in 2017 mainly due to many projects that had been handed over since 2Q2017. Conversely in 2Q18, there were many projects at the initial stage of the development such as AtWater, Petaling Jaya, and Keranji (a component of the Greenwoods township development) which have achieved encouraging sales to-date.

Revenue of the education division was marginally higher at RM68.5 million (2Q2017: RM65 million) mainly due to the higher student enrolment at KDU University College in Glenmarie. PBT for the division, was lower at RM9.5 million compared to RM11.7 million achieved in 2Q2017. This was largely due to the rental expense incurred by Sri KDU under the sale and leaseback agreement with Alpha REIT which had commenced on 30 September 2017.

6M2018 vs 6M2017

The Group's revenue for 6M2018 was RM440.6 million, an increase of 31% compared to the corresponding period last year (6M2017: RM336.5 million) while the Group's PBT was RM78.8 million (6M2017: RM48 million).

Revenue of the property division had increased by 31% to RM301.3 million (6M2017: RM230.7 million) while the PBT was RM64.8 million (6M2017: RM35.2 million). Excluding the KD Land Disposal, 6M2018 PBT would be RM21.6 million, which was RM13.6 million lower than that of 6M2017. This was mainly due to lower level of construction activities achieved coupled with the completion of certain phases within the high-end Sejati Residences comprising semi-detached and superlink properties in Cyberjaya and Utopolis Glenmarie's serviced apartments in Shah Alam in 2017.

The sales status and unbilled sales of the property division are as follows:

Location	For period ended 30/6/18			As at 30/6/18
	Launched units	Units sold*	Sales value RM'M	Unbilled sales RM'M
Central region - Selangor	698	528	448	557
Northern region - Kedah, Penang	462	330	150	309
Total	1,160	858	598	866

* - Includes sales of units from launches in earlier years

B1. Review of performance (cont'd)

Revenue of the education division grew by 32% to RM139.3 million (6M2017: RM105.8 million) while PBT had increased by 19% to RM22.2 million (6M2017: RM18.6 million). The main contributors to the improvement in revenue and PBT were the consolidation of the R.E.A.L. Education Group's financial results from April 2017 as well as higher student enrolment at KDU University College in Glenmarie.

B2. Material changes in Profit Before Tax for the quarter reported on as compared with the immediate preceding quarter

	2Q2018 RM'000	1Q2018 RM'000	Var. %
Revenue	278,366	162,246	72%
Operating profit	64,721	21,700	198%
Profit before interest & tax	64,695	21,681	198%
Profit before tax	60,785	18,001	238%
Profit after tax	44,706	13,177	239%
Profit attributable to ordinary equity holders of the Company	42,302	6,963	508%

The Group's PBT for 2Q2018 of RM60.8 million was significantly higher compared to the preceding quarter's PBT by RM42.8 million mainly due to the KD Land Disposal.

B3. Prospects

The Malaysian economy is projected to grow by 5.0% in 2018. Domestic demand will continue to be the anchor of growth, underpinned by private sector activity. Private consumption growth is expected to sustain, supported by continued growth in employment and income, lower inflation and improving sentiments.

According to the National Property Information Centre, the property market is projected to stabilise in 2018, having endured challenging times in the last two years. The forecast economic growth, accommodative monetary policy and the growing household formation will help sustain the momentum in the property sector.

During the six months ended 30 June 2018, the Group achieved sales of RM598 million and targets to achieve property sales of approximately RM1.0 billion backed by new launches of properties of approximately RM1.2 billion for the financial year 2018. In addition, the Group's unbilled sales of RM866 million as at 30 June 2018 is expected to contribute positively to the Group's financial performance in the near future.

The Group is encouraged by the strong take-up rate of Atwater in Section 13, Petaling Jaya, Suasana Phase 1 in Batu Kawan, Penang and Keranji Phase 1 (a component of the Greenwoods township development in Sepang), all of which were launched in March 2018. On the back of encouraging sales achieved, the Group will be launching in the second half of 2018 Phase 2 of Suasana, Phase 2 of Keranji and the commercial development at Atwater.

Further, the Group is targeting to launch in 2018, a mixed development project located in the vicinity of Klang's main business and commercial area, where the Group will also be constructing a new Sri KDU international school. This is in line with the Group's strategy to derive synergy from its strong branding and expertise in its property and education businesses.

As at 30 June 2018, the Group's land bank is as follow:

Location	No. of projects	Original land size (Acres)	Remaining undeveloped land (Acres)
Central region - Selangor	6	862.8	320.8
Northern region - Kedah, Penang	4	1,117.9	401.1
Total	10	1,980.7	721.9

In respect of the education segment, competition will remain intense amidst a price-sensitive environment, with slow market growth and high market penetration for the tertiary segment. The K-12 segment is expected to see continued mushrooming of new entrants.

B3. Prospects (Cont'd)

The Group will remain focused on delivering quality education and will leverage on proven, long standing track record of the KDU brand to grow the student population.

The K-12 segment will be the main driver within the education segment with R.E.A.L targeting the mass affluent segment while Sri KDU offers premium private and international schools. In addition, the acquisition of R.E.A.L. Education Group in April 2017 has broadened the Group's spectrum of offerings to pre-school and enrichment centres, and will contribute a full year's results in 2018. The Group believes there is untapped growth potential in the pre-school and enrichment centre segments. In this regard, the Group has opened three (3) new pre-school centres in the Klang Valley during the quarter ended 30 June 2018, which are expected to contribute positively to the Group's financial performance. In addition, the Group will also leverage on the synergies and opportunities for student continuity and retention, with R.E.A.L Kids kindergarten students moving to R.E.A.L Schools or Sri KDU national and international schools, and for R.E.A.L School students moving to KDU University Colleges.

Responding to market conditions, the tertiary education segment will increase its marketing efforts to tap into new markets in Malaysia, whilst enhancing strategies for international marketing and relationship building with recruitment agencies, as well as intensifying promotional activities through various media, particularly digital marketing. Towards this end, the student enrolment at KDU University College (Glenmarie and Penang) has shown encouraging improvement for the six months ended 30 June 2018 as compared to the corresponding period last year.

In line with the Group's asset light strategy, it will continue to pursue sale and leaseback of education assets and build strategic partnerships to undertake property development projects on joint venture basis if such opportunities arise. In addition, the Group seeks to unlock value through the monetisation of land bank and strategic divestments.

Barring any unforeseen circumstances, the Group is expected to deliver a better operating performance for the current financial year ending 31 December 2018.

B4. Profit forecast or profit guarantee

There were no profit forecast or profit guarantee for the current quarter and financial year to date.

B5. Taxation

The taxation charge included the following:

	Current Quarter RM'000	Financial Year-to-date RM'000
Income tax	16,454	23,613
Deferred tax	(375)	(2,710)
	<u>16,079</u>	<u>20,903</u>

The effective tax rate for the current quarter was higher than the statutory income tax rate in Malaysia due to the losses of certain subsidiaries that were not available for full set off against taxable profits of other subsidiaries and certain expenses which were not deductible for tax purposes.

B6. Corporate proposal

Save for the proposal disclosed below, there were no corporate proposals announced but not completed as at 21 August 2018.

- (i) On 22 December 2017, the Group entered into a Development Rights Agreement ("DRA") with Kumpulan Hartanah Selangor Berhad (KHSB) to accept the rights granted by KHSB to the proposed development of two (2) contiguous parcels of leasehold commercial land measuring approximately 9.662 acres in total area situated in Section 14, Bandar Petaling Jaya, District of Petaling, State of Selangor Darul Ehsan.
- (ii) On 2 January 2018, the Group entered into a sale and purchase agreement with EM Hub Sdn Bhd ("EHSB") for the proposed disposal of two (2) contiguous parcels of leasehold land held under titles H.S.(D) 242971 PT 10568 and H.S.(D) 242972 PT 10570, all situated in Mukim Pekan Baru Sungai Buloh, Daerah Petaling, Negeri Selangor Darul Ehsan measuring approximately 9.4 acres in total area to EHSB for a total cash consideration of RM92,129,400.00. The proposed disposal became unconditional on 7 June 2018 and was deemed completed on 5 July 2018, being the date of receipt of the balance sale consideration of RM82,916,460.00 by the Group.
- (iii) On 12 January 2018, the Group entered into a Sale and Purchase Agreement (SPA) with Makmur Asiamaju Sdn Bhd for the proposed acquisition of a piece of freehold residential land measuring approximately 41.406 acres in total area held under title H.S.(D) 36154 PT 50495 situated in Mukim Dengkil, Daerah Sepang, Negeri Selangor at a total cash consideration of RM149,702,565.00.

B7. Borrowings and debts securities

The Group's borrowings and debts securities as at 30 June 2018 and 30 June 2017 were as follows:

	30/6/2018 RM'000	30/6/2017 RM'000
<u>Short-term borrowings</u>		
Bank overdraft - Secured	13,692	9,475
Bank overdraft - Unsecured	34,283	13,807
Revolving credit - Secured	43,000	29,232
Revolving credit - Unsecured	50,000	50,000
Current portion of long term loans - Secured	102,402	99,507
	<u>243,377</u>	<u>202,021</u>
<u>Long-term borrowings (Secured)</u>		
Term loans	540,703	573,124
Islamic Medium Term Notes (IMTN)	153,607	128,586
	<u>694,310</u>	<u>701,710</u>
Total borrowings	<u>937,687</u>	<u>903,731</u>

The weighted average interest rate at the end of the reporting period were as follows:

Floating interest rate	4.88%	4.75%
Fixed interest rate	5.02%	5.06%

There were no bank borrowings denominated in foreign currencies as at the reporting date.

The increase in bank borrowings was mainly due to:

- (i) IMTN - Increase was to finance the construction expenditure for university campus in Batu Kawan.
- (ii) Revolving credit - Increase was to finance the project expenditure.

B8. Derivative financial instrument

The outstanding interest rate swap contracts as at 30 June 2018 were as follows:

	Contract amount	Net Fair value Assets/ (Liabilities)
	RM'000	RM'000
Interest rate swap*		
- More than 3 years	15,649	(88)

* The contracts effectively swapped the Group's floating interest rate to fixed interest rate to hedge against interest rate fluctuation.

B9. Fair value gain/(loss)

	Current Quarter RM'000	Financial Year-to-date RM'000
Interest rate swap	(70)	(40)

Basis of fair value measurement: The differences between floating and fixed interest rates.

Reason for loss: The floating interest rate has moved unfavourably against the Group from the last measurement date.

B10. Changes in material litigation

As at 21 August 2018, there were no changes in material litigation since the last annual reporting date of 31 December 2017.

B11. Dividends payable

The Board of Directors has declared an interim single tier dividend of 2.50 sen per share, (2017: 2.50 sen per share, single tier) in respect of the financial year ending 31 December 2018, which will be paid on 28 September 2018 to shareholders whose names appear on the Record of Depositors on 7 September 2018.

- (a) shares transferred into the Depositor's Securities Account before 4.00 p.m. on 7 September 2018 in respect of ordinary transfers.
- (b) shares bought on Bursa Malaysia Securities Berhad on a cum entitlement basis according to the rules of Bursa Malaysia Securities Berhad.

The total dividend for the current financial year to date is 2.50 sen per share, single tier. (2017: 2.50 sen per share, single tier)

B12. Earnings per share

(a) Basic EPS

Basic EPS is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Current Quarter	Financial Year-to-date
Profit attributable to equity holders of the Company (RM'000)	42,302	49,265
Weighted average number of ordinary shares ('000)	428,272	426,284
	<hr/>	<hr/>
Basic EPS (sen)	9.88	11.56
	<hr/>	<hr/>

(b) Diluted EPS

Profit attributable to equity holders of the Company (RM'000)	42,302	49,265
Weighted average number of ordinary shares ('000)	428,272	426,284
Effect of dilution ('000)	15,490	15,490
	<hr/>	<hr/>
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	443,762	441,774
	<hr/>	<hr/>
Diluted EPS (sen)	9.53	11.15
	<hr/>	<hr/>

A2. Change in accounting policies

Adoption of MFRS 15

	6 Months ended 30 June 2017				Year ended 31 December 2017			
	Previously stated under FRSs	Effect of MFRS 15	Reclassification	Restated under MFRSs	Previously stated under FRSs	Effect of MFRS 15	Reclassification	Restated under MFRSs
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Income statement</u>								
Revenue	327,495	2,907	6,108	336,510	758,325	(7,146)	11,755	762,934
Operating profit	47,861	4,972	0	52,833	197,913	488	0	198,401
Profit before tax	42,991	4,972	0	47,963	182,169	488	0	182,657
Taxation	12,426	1,483	0	13,909	31,890	320	0	32,210
Profit for the period	30,565	3,489	0	34,054	150,279	168	0	150,447
Profit attributable to:								
Ordinary equity holders of the Company	22,966	3,489	0	26,455	133,409	168	0	133,577
Non-controlling interest	1,007	0	0	1,007	3,591	0	0	3,591
Holder of private debt securities of the Company	6,592	0	0	6,592	13,279	0	0	13,279
	<u>30,565</u>	<u>3,489</u>	<u>0</u>	<u>34,054</u>	<u>150,279</u>	<u>168</u>	<u>0</u>	<u>150,447</u>

Earnings per share ("EPS") attributable to Ordinary equity holders of the Company (sen):	
Basic EPS	5.43
Diluted EPS	5.23

Statement of comprehensive income

	6 Months ended 30 June 2017	Year ended 31 December 2017
Profit for the period	34,054	150,447
Other comprehensive income	194	(32)
Total other comprehensive income	<u>30,759</u>	<u>150,247</u>

Total comprehensive income attributable to:	
Ordinary equity holders of the Company	26,649
Non-controlling interest	1,007
Holder of private debt securities of the Company	6,592
	<u>30,759</u>

	As at 31 December 2017			As at 1 January 2017		
	Previously stated under FRSs	Effect of MFRS 15	Restated under MFRSs	Previously stated under FRSs	Effect of MFRS 15	Restated under MFRSs
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<u>Statement of financial position</u>						
Property development costs	182,109	(6,276)	175,833	76,957	18,547	95,504
Inventory	26,374	266	26,640	28,789	2,133	30,922
Other receivables	35,961	6,901	42,862	16,550	642	17,192
Other current assets	140,310	13,759	154,069	143,269	1,017	144,286
Other payables	201,999	7,472	209,471	103,536	321	103,857
Other current liabilities	65,131	0	65,131	56,631	15,325	71,956
Deferred tax assets	31,670	(1,440)	30,230	22,611	(1,614)	20,997
Deferred tax liabilities	28,283	494	28,777	4,903	0	4,903
Retained earnings	724,384	5,245	729,629	627,040	5,077	632,117