

KRETAM HOLDINGS BERHAD

(Company No.: 168285 - H)

INTERIM FINANCIAL REPORT FOR THE QUARTER ENDED 30 JUNE 2018

This interim financial report is unaudited and should be read in conjunction with the Company's audited financial statements for the year ended 31 December 2017.

A. CONDENSED CONSOLIDATED INCOME STATEMENT

	CURRENT QUARTER			CUMULATIVE		
	Quarter ended 30 June			6 months ended 30 June		
	2018	2017 (Restated)	Changes	2018	2017 (Restated)	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
<u>CONTINUING OPERATIONS:-</u>						
Revenue	147,363	147,752	0%	308,252	289,597	6%
Cost of sales and services	(138,358)	(127,458)		(282,707)	(244,546)	
Gross profit	9,005	20,295	-56%	25,545	45,052	-43%
Selling and distribution costs	(8,209)	(8,488)		(16,171)	(16,096)	
	796	11,807		9,374	28,956	
Other income	2,124	2,594		5,797	6,697	
Administrative expenses	(3,648)	(3,497)		(7,690)	(7,149)	
Other expenses	(2,525)	140		(5,195)	(208)	
Profit/(loss) before interest and Taxation	(3,253)	11,043	-129%	2,286	28,296	-92%
Finance income	242	281		470	480	
Finance costs	(1,309)	(1,461)		(2,630)	(3,032)	
Profit/(loss) before taxation	(4,320)	9,863	-144%	126	25,744	-100%
Taxation	604	(5,156)		(2,201)	(8,248)	
Profit/(loss) after taxation	(3,716)	4,707	-179%	(2,075)	17,496	-112%
Profit/(loss) after taxation attributable to:-						
Shareholders of the Company	(3,822)	4,634	-182%	(2,302)	17,386	-113%
Non-Controlling Interests	106	73		227	110	
	(3,716)	4,707	-179%	(2,075)	17,496	-112%
<u>EARNINGS/(LOSS) PER SHARE (EPS):-</u>						
	Sen	Sen		Sen	Sen	
Basic EPS	(0.16)	0.21		(0.10)	0.76	
Diluted EPS	(0.16)	0.21		(0.10)	0.76	

B. CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	CURRENT QUARTER			CUMULATIVE		
	Quarter ended 30 June			6 months ended 30 June		
	2018	2017 (Restated)	Changes	2018	2017 (Restated)	Changes
	RM'000	RM'000	%	RM'000	RM'000	%
Profit/(loss) after taxation	(3,716)	4,707	-179%	(2,075)	17,496	-112%
Other Comprehensive Income (OCI)	0	0		0	0	
Income tax relating to components of OCI	0	0		0	0	
Other Comprehensive Income net of tax	0	0		0	0	
Total Comprehensive Income/(loss)	(3,716)	4,707	-179%	(2,075)	17,496	-112%
Total Comprehensive Income/(loss) attributable to:-						
Shareholders of the Company	(3,822)	4,634	-182%	(2,302)	17,386	-113%
Non-Controlling Interests	106	73	45%	227	110	106%
	(3,716)	4,707	-179%	(2,075)	17,496	-112%

C. CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 30.06.2018	As at 31.12.2017 (Restated)
	RM'000	RM'000
NON-CURRENT ASSETS		
Property, plant and equipment and land use rights	592,747	592,025
Investment property	622	626
Biological assets	0	0
Intangible assets	43,874	42,777
Trade & other receivables	4,532	4,532
CURRENT ASSETS		
Biological assets	11,369	11,677
Inventories	117,193	125,008
Receivables	31,256	60,436
Tax refundable	21,304	13,880
Derivatives	0	426
Cash and bank balances	54,980	100,199
	236,102	311,626
Assets held for sale	0	0
	236,102	311,626
CURRENT LIABILITIES		
Payables	42,262	77,630
Loans and borrowings	98,896	130,219
Derivatives	2,193	452
Income tax payable	0	2
	143,351	208,303
Liabilities associated with disposal group	0	0
	143,351	208,303
NET CURRENT ASSETS	92,751	103,323
NON-CURRENT LIABILITIES		
Loans and borrowings	8,886	14,351
Deferred taxation	23,402	24,489
	702,238	704,443
EQUITY		
Equity attributable to shareholders of the Company		
Share capital	746,467	746,467
Revaluation reserve	0	0
Other reserves	0	0
Retained profits /(losses)	(50,103)	(47,801)
	696,364	698,666
Equity attributable to non-controlling interests	5,874	5,777
	702,238	704,443
NET ASSETS PER SHARE	<u>Sen</u> 29.9	<u>Sen</u> 30.0

D. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	EQUITY ATTRIBUTABLE TO:-					TOTAL EQUITY RM'000
	Shareholders of the Company				Non- controlling Interests RM'000	
	Share Capital RM'000	Reserves RM'000	Retained Profits RM'000	TOTAL RM'000		
<u>CURRENT YEAR TO DATE:</u>						
At 1 January 2018	746,467	35,362	133,405	915,234	5,777	921,011
Effect on MFRS adoption and changes in accounting policies	0	(35,362)	(181,206)	(216,568)	0	(216,568)
Total Comprehensive Income/(loss) for the period	0	0	(2,302)	(2,302)	227	(2,075)
Non-controlling interests on acquisition of a subsidiary					(30)	(30)
Dividend paid	0	0	0	0	0	0
Dividend paid to non-controlling interests	0	0	0	0	(100)	(100)
At 30 June 2018	746,467	0	(50,103)	696,364	5,874	702,238
<u>PREVIOUS YEAR CORRESPONDING PERIOD:</u>						
At 1 January 2017	465,525	315,994	138,127	919,646	2,224	921,870
Effect on MFRS adoption and changes in accounting policies	0	(35,362)	(175,227)	(210,589)	0	(210,589)
Effect of implementation of Companies Act 2016	280,942	(280,942)	0	0	0	0
Total Comprehensive Income/(loss) for the period	0	0	17,386	17,386	110	17,496
Dividend paid	0	0	0	0	(49)	(49)
Dividend paid to non-controlling interests	0	0	0	0	0	0
At 30 June 2017 (Restated)	746,467	(310)	(19,714)	726,443	2,285	728,728

E. CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months ended 30 Jun	
	2018 RM'000	2017 (Restated) RM'000
Cash flows from operating activities		
Profit/(loss) before taxation from continuing operations	126	25,743
<u>Adjustments for:-</u>		
Depreciation and amortisation	22,382	20,510
Impairment loss/ (gain) on biological assets	0	219
Interest income	(470)	(480)
Finance costs	2,630	3,032
Loss / (gain) on disposal of assets	(96)	39
Unrealised loss/ (gain) on derivatives	2,193	283
Others	(8,290)	460
Changes in working capital	27,937	16,786
Income taxes paid, net of refunds	(10,717)	(10,747)
Interest received	460	480
Interest paid	(2,641)	(3,487)
	33,514	52,839
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,847)	(13,853)
Proceeds from disposal of property plant and equipment	1,060	50
Addition to Biological Assets	0	(919)
Withdrawal/(placement) of fixed deposits of longer-term tenure	(1,506)	820
Others		
	(20,293)	(13,902)
Cash flows from financing activities		
Net drawdown/(repayment) of finance lease obligations	273	(525)
Net drawdown/(repayment) of revolving credit, term loan & foreign bill of exchange	(37,144)	(37,482)
Payment of dividends to shareholders	(23,276)	(23,276)
Payment of dividends to non-controlling interests	(100)	(49)
	(60,247)	(61,332)
Increase/(decrease) in cash and cash equivalents	(47,026)	(22,395)
Cash and cash equivalents at the beginning of the year	99,462	94,618
Cash and cash equivalents at the end of the period	52,436	72,223
Cash and cash equivalents comprise the following:		
Cash and bank balances	54,980	72,320
less: Fixed deposits with maturity of more than 3 months	(2,544)	(97)
	52,436	72,223

F. EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD FRS 134

1. ACCOUNTING POLICIES

The interim financial statements are prepared as required by Paragraph 9.22 of the Bursa Malaysia Listing Requirements and comply with Malaysian Financial Reporting Standard MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (MASB).

(a) Changes to Accounting Policies

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the preparation of the audited financial statements for the year ended 31 December 2017 except for the adoption of the following new Malaysian Financial Reporting Standards (“MFRSs”; “MFRS” when referred to in the singular) which became applicable beginning from the Group’s financial year ending 31 December 2018:

MFRS 116	: Property, Plant & Equipment Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to MFRS 116 and MFRS 138) Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)
MFRS 141	: Agriculture: Bearer Plant Agriculture: Bearer Plants (Amendments to MFRS 116 and MFRS 141)
MFRS 9	: Financial Instruments

(b) Malaysian Financial Reporting Standards (“MFRS”) and MFRS Framework

On 19 November 2011 the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (“MFRS Framework”) which is to be applied by all entities other than private entities for annual periods beginning on or after 1 January 2012, except for entities that are within the scope of MFRS 141 *Agriculture* and IC Interpretation 15 *Agreements for Construction of Real Estate (“IC 15”)*, including their parents, significant investors and venturers (collectively referred to as “Transitioning Entities”). Transitioning Entities are allowed to defer adoption of the MFRS Framework and continue to use the existing FRS framework until the MFRS Framework is mandated by the MASB.

As announced by the MASB on 28 October 2015, Transitioning Entities shall be required to apply the MFRS Framework for annual periods beginning on or after 1 January 2018.

The Group falls within the definition of Transitioning Entities and has elected to defer adoption of the MFRS Framework. Consequently, the Group has applied the MFRS Framework for the first time in its financial statements for the year ending 31 December 2018. In presenting its first set of financial statements under the MFRS Framework, the Group will be required to restate its comparative financial statements to amounts reflecting the application of the MFRS Framework. The majority of the adjustments required to be made on transition will be made, retrospectively, against opening retained earnings.

The effect on the change in accounting policy for consolidated financial performance and financial position on the comparative period are revised as follows:

Reconciliation of consolidated statement of financial position as at 1 January 2017 (date of transition)

	As at 01.01.2017 Under FRS RM'000	Adjustments RM'000	As at 01.01.2017 Under MFRS RM'000
NON-CURRENT ASSETS			
Property, plant and equipment and land use rights	505,357	110,695	616,052
Investment property	631		631
Biological assets	400,178	(400,178)	0
Intangible assets	42,777		42,777
Trade & other receivables	4,532		4,532
CURRENT ASSETS			
Biological assets	0	12,207	12,207
Inventories	139,819	0	139,819
Receivables	41,429	0	41,429
Tax refundable	9,935	0	9,935
Derivatives	0	0	0
Cash and bank balances	95,536	0	95,536
	286,719	12,207	298,926
Assets held for sale	2,929	0	2,929
	289,648	12,207	301,855
CURRENT LIABILITIES			
Payables	73,609	0	73,609
Loans and borrowings	126,935	0	126,935
Derivatives	1,725	0	1,725
Income tax payable	24	0	24
	202,293	0	202,293
Liabilities associated with disposal group	1	0	1
	202,294	0	202,294
NET CURRENT ASSETS	87,354	12,207	99,561
NON-CURRENT LIABILITIES			
Loans and borrowings	25,491	0	25,491
Deferred taxation	93,468	(66,546)	26,922
	118,959	(66,546)	52,413
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	465,525		465,525
Shares premium	280,942		280,942
Revaluation reserve	35,052	(35,362)	(310)
Other reserves			
Retained profits	138,127	(175,368)	(37,241)
	919,646	(210,730)	708,916
Equity attributable to non-controlling interests	2,224	0	2,224
	921,870	(210,730)	711,140

Reconciliation of consolidated statement of financial position as at 31 December 2017 (date of transition)

	As at 31.12.2017 Under FRS RM'000	Adjustments RM'000	As at 31.12.2017 Under MFRS RM'000
NON-CURRENT ASSETS			
Property, plant and equipment and land use rights	488,440	103,585	592,025
Investment property	626	0	626
Biological assets	400,246	400,246	0
Intangible assets	42,777	0	42,777
Trade & other receivables	4,532	0	4,532
CURRENT ASSETS			
Biological assets	0	11,677	11,677
Inventories	125,008	0	125,008
Receivables	60,436	0	60,436
Tax refundable	13,880	0	13,880
Derivatives	426	0	426
Cash and bank balances	100,199	0	100,199
	299,949	11,677	311,626
Assets held for sale	0	0	0
	299,949	11,677	311,626
CURRENT LIABILITIES			
Payables	77,630	0	77,630
Loans and borrowings	130,219	0	130,219
Derivatives	452	0	452
Income tax payable	2	0	2
	208,303	0	208,303
Liabilities associated with disposal group	0	0	0
	208,303	0	208,303
NET CURRENT ASSETS	91,646	11,677	103,323
NON-CURRENT LIABILITIES			
Loans and borrowings	14,351	0	14,351
Deferred taxation	92,905	(68,416)	24,489
	107,256	(68,416)	704,443
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	746,647	0	746,647
Shares premium	0	0	0
Revaluation reserve	35,362	(35,362)	0
Other reserves			
Retained profits	133,405	(181,206)	(47,801)
	915,234	(216,568)	698,666
Equity attributable to non-controlling interests	5,777	0	5,777
	921,011	(216,568)	704,443

Reconciliation of consolidated statement of financial performance as at 30 June 2017

	CORRESPONDING QUARTER		
	6 months ended 30 Jun		
	2017 (Under FRS)	Adjustments	2017 (Under MFRS)
	RM'000	RM'000	RM'000
<u>CONTINUING OPERATIONS:-</u>			
Revenue	289,597		289,597
Cost of sales and services	(243,092)	(1,454)	(244,546)
Gross profit	46,505	(1,454)	45,052
Selling and distribution costs	(16,096)		(16,096)
	30,409		28,956
Other income	6,697		6,697
Administrative expenses	(7,149)		(7,149)
Other expenses	(1,290)	1,083	(208)
Profit/(loss) before interest and Taxation	28,667	1,083	28,296
Finance income	480		480
Finance costs	(3,032)		(3,032)
Profit/(loss) before taxation	26,115		25,744
Taxation	(8,337)	89	(8,248)
Profit/(loss) after taxation	17,778	(282)	17,496

At the date of authorisation of these interim financial statements, the following MFRS, IC Interpretations and Amendments to IC Interpretations were issued but not yet effective and have not been applied by the Group:

MFRS, IC Interpretation and Amendments to IC Interpretations	Effective for annual periods beginning on or after
MFRS 16 : Leases	1 January 2019
MFRS 128 : Long Term Interest in Associates and Joint Venture (Amendments to MFRS 128)	1 January 2019
MFRS 17 : Insurance Contracts	1 January 2021
Amendments to FRS 10 and FRS 128 Sale and Contribution of Assets between an Investor and its Associates or Joint Venture	Deferred

2. SEASONAL OR CYCLICAL FACTORS

The Group's production from its plantations generally experiences an "up-down" cycle once a year, with low production usually in the early part of the year, and peak production in the final quarter of the year.

3. SIGNIFICANT ITEMS/EVENTS

There were no items or events which arose, which affected assets, liabilities, equity, net income or cash flows, which are unusual by reason of their nature, size or incidence.

4. MATERIAL CHANGES IN ACCOUNTING ESTIMATES

During the period under review, there were no:

- (i) material changes in estimates of amounts reported in the previous interim periods of the current financial year; and
- (ii) material changes in estimates of amounts reported in prior financial years.

5. DEBT AND EQUITY SECURITIES

There were no cancellations, repurchases, resale and repayments of debt and equity securities during the period under review.

6. PAYMENT OF DIVIDENDS

During the year, the Company paid an interim dividend of 1.0 sen per ordinary share in respect of the financial year ended 31 December 2017 amounting to RM 23,276,271.35. The dividend was paid on 16 January 2018.

7. SEGMENT REVENUE AND RESULTS FOR THE 6 MONTHS ENDED 30 JUNE 2018

	Plantation & Mill	Refinery	Elimination	TOTAL
	RM'000	RM'000	RM'000	RM'000
<u>REVENUES AND RESULTS:-</u>				
Segment Revenue – external	30,659	277,593	0	308,252
Inter-segment revenue	112,856	0	(112,856)	0
	<u>143,515</u>	<u>277,593</u>	<u>(112,856)</u>	<u>308,252</u>
Segment results	<u>16,818</u>	<u>(17,052)</u>	<u>482</u>	<u>248</u>
Unallocated Items:-				
Other income				830
Corporate expenses				(952)
Finance costs				0
Profit before taxation from continuing operations				126
Taxation				(2,201)
Profit after taxation from continuing operations				<u>(2,075)</u>
<u>ASSETS:-</u>				
Segment assets	<u>591,812</u>	<u>266,081</u>		857,893
Unallocated assets				19,984
Assets classified as held for sale				0
Total assets				<u>877,877</u>

8. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The valuations of leasehold land, plantations and buildings have been brought forward, without amendment from the previous audited financial statements (for the year ended 31 December 2017).

9. COMMITMENTS

(a) Capital commitments

As at 30 June 2018, there were no material capital commitments for capital expenditure, contracted for or known to be contracted for by the Group which might have a material impact on the financial position or business of the Group, except as disclosed below:

	As at 30.06.2018
	RM'000
Approved and contracted for	10,094
Approved but not contracted for	53,234
	<u>63,328</u>

(b) Operating lease commitments

As at 30 June 2018, there were no material operating lease commitments, except those disclosed below:

	As at 30.06.2018
	RM'000
Not later than 1 year	571
Later than 1 year but not later than 5 years	2,285
Later than 5 years	5,426
	<u>8,282</u>

(c) Finance lease commitments

As at 30 June 2018, there were no material finance lease commitments, except those disclosed below:

	As at 30.06.2018
	RM'000
Not later than 1 year	568
Later than 1 year but not later than 5 years	591
	<u>1,159</u>

10. SUBSEQUENT EVENTS

As at the date of this report, there were no other material events which arose subsequent to the end of the period under review.

11. EFFECT OF CHANGES IN THE COMPOSITION OF THE GROUP

On 25 May 2018, Abedon Sdn. Bhd., a wholly-owned subsidiary of the Company, acquired the remaining 30% issued and paid-up capital of Abedon Enviro Sdn. Bhd. for a cash consideration of RM 300,000. The acquisition gave rise to goodwill on consolidation amounting to RM 1,051,840.

On 29 June 2018, Kretam Management Sdn Bhd, a wholly-owned subsidiary of the Company, acquired the remaining 33.33% issued and paid up capital of Usaha Dimega Sdn Bhd, for a cash consideration of RM 2.00. The acquisition gave rise to goodwill on consolidation amounting to RM 44,771.

There were no discontinued operations during the period under review.

12. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS SINCE THE LAST FINANCIAL YEAR

There were no changes in contingent liabilities or contingent assets since 31 December 2017.

**G. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA
MALAYSIA SECURITIES BERHAD**

13. REVIEW OF PERFORMANCE

For 1st half of 2018, the Group achieved a total revenue of RM 308.3 million (2017: RM289.6 million) and a pre-tax gain of RM 0.1 million (2017: pre-tax gain of RM 25.7 million).

Commentary on the performance of the operating segments of the Group is as follows:

(a) Plantations and Mills

As shown in Note 7, the Group's plantation and mill operations achieved revenue (including inter-segment revenue) of RM 143.5 million (Q1-Q2 2017: RM 95.6 million), and pre-tax gain of RM 16.9 million (Q1-Q2 2017: RM 26.8 million). These should be seen in the context of information presented in the tables below:

Table A: Crude palm oil (CPO and palm kernel (PK) prices – Sabah MPOB* average

	CPO		PK	
	2018	2017	2018	2017
January	2,475.50	3,213.00	2,303.00	3,447.50
February	2,500.00	3,218.00	2,079.00	3,377.50
March	2,406.50	2,911.50	1,831.50	2,450.50
April	2,401.50	2,669.50	1,785.00	1,853.50
May	2,368.00	2,762.50	1,726.50	2,037.00
June	2,290.00	2,595.00	1,553.00	1,916.00

Table B: Output indicators, and comparison with industrial average

	2nd Quarter			Year to Date		
	2018	2017	% change	2018	2017	% change
FFB Production (mt)	73,662	88,210	-16.5%	156,711	154,708	1.3%
FFB Yield (mt/hectare):						
The Group's estates	4.12	4.84	-14.8%	8.77	8.48	3.3%
MPOB Sabah average	4.04	4.66	-13.3%	8.64	8.48	1.9%
CPO Closing Stock at Palm Oil Mills (mt)	4,346	4,397	-1.2%	4,346	4,397	-1.2%
Oil Extraction Rate:						
The Group's palm oil mills	20.46%	20.12%	1.7%	20.23%	20.12%	0.6%
MPOB Sabah average	20.82%	20.42%	2.0%	20.54%	20.31%	1.1%

* - MPOB: Malaysian Palm Oil Board

The Group results for Q2 2018 are less favourable when compared to Q2 2017. This is due to lower commodity prices and FFB production in Q2 2018. As a result, the Group pre-tax losses in Q2 2018 were seen higher and impacted the results of the whole 1st half of 2018 for the Group.

(b) Refinery

Also as shown in Note 7, the Group's refinery operations achieved revenue of RM 277.6 million (Q1-Q2 2017: RM 263.1 million) and suffered a pre-tax loss of RM 17.1 million (Q1-Q2 2017: pre-tax loss of RM 8.6 million). Refinery's pre-tax loss was higher when compared to previous year's pre-tax loss. This is mainly due to the downtrend in commodity prices for the year, where products were sold at a lower profit margin as compared to previous year.

14. COMPARISON WITH THE PREVIOUS QUARTER'S RESULTS

The following is a summary based on the two respective quarters' condensed consolidated income statements:

	Current Quarter RM'000	Previous Quarter RM'000	Changes %
<u>CONTINUING OPERATIONS:-</u>			
Revenue	147,363	160,888	-8%
Cost of sales and services, including distribution	(146,567)	(152,310)	
	796	8,578	
Other income	2,124	3,672	
Administrative, finance and other expenses	(6,173)	(6,712)	
Profit/(loss) before interest and taxation	(3,253)	5,538	-159%
Interest income	242	229	
Interest costs	(1,309)	(1,321)	
Profit/(loss) before taxation	(4,320)	4,446	-197%
Taxation	604	(2,805)	
Profit/(loss) after taxation	(3,716)	1,641	-326%
Profit/(loss) after taxation attributable to:			
Shareholders of the Company	(3,822)	1,520	-351%
Non-Controlling Interests	106	121	
	(3,716)	1,641	-326%

The Q2 2018 pre-tax loss as compared to previous quarter pre-tax gain was mainly due to lower commodity prices which translated to lower revenue.

15. CURRENT YEAR PROSPECTS

The Group's performance is closely tied with the movements in the prices of CPO and refined palm products. Since the start of 2018, the CPO prices have gradually declined from RM2,476 level to around RM 2,230.

The decline in CPO prices was partly reflected by higher stock level which currently stands at 2.214 million mt as at July 2018. The broader market expects the palm product prices will be quite subdued in the Q3 2018 since the market is still expecting higher FFB production in the coming months and adverse developments in foreign government policy on import duties.

Since the higher FFB production did not eventuate in Q2 2018 for the Group, the Board is expecting higher FFB production in Q3 2018 or early Q4 2018. The increase in FFB production for the coming quarters will help in reducing the overall impact of lower commodity prices.

For 2018, the outlook is quite challenging with current market of lower commodity prices, higher stock level and increase in FFB production but any improvement in terms of commodity prices and demand for palm oil in the coming months will improve the Group's results for FY 2018.

16. ACHIEVEMENT OF REVENUE/PROFIT ESTIMATES, FORECASTS AND/OR INTERNAL TARGETS

Not applicable as the Company did not provide any revenue or profit estimate, forecast or projection, and did not publish any internal targets, in any public document.

17. EXPLANATION OF VARIANCES FROM PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as the Company did not provide any profit forecast or guarantee, in any public document.

18. TAXATION

	Quarter ended <u>30.06.2018</u> RM'000	6 months ended <u>30.06.2018</u> RM'000
Provision in respect of results for the current quarter/period	(505)	3,289
Overprovision for taxation in respect of previous years	0	0
Deferred taxation	(99)	(1,088)
	<u>(604)</u>	<u>2,201</u>

The Group's effective rate of taxation is higher than the 24% statutory rate mainly due to losses incurred in its refinery operations, for which no deferred tax assets have been recognized.

19. STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT YET COMPLETED

(a) Bulking Joint Venture Agreement ("BJVA")

On 7 July 2014, Usaha Dimega Sdn Bhd ("UDSB"), a wholly-owned subsidiary of the Group, entered into a conditional Bulking Joint Venture Agreement ("BJVA") with Rikaworth Sdn Bhd ("RSB") and Sawit Bulkers Sdn Bhd ("SBSB") to venture into the business of palm oil common bulking installations for palm oil and related products together with a system of pipe racks to facilitate the transfer of liquid products between the bulking facilities and users of such facilities and the conveyance of the same to and from the jetty facilities of the Sabah Ports Authority in Sandakan, subject to the terms and conditions of the BJVA.

The BJVA is subject to the fulfilment (unless waived by mutual written consent of UDSB and RSB) of certain Conditions Precedent, after which UDSB and RSB are to subscribe for shares at par in the JV Company in cash on a date to be decided by the Board of Directors of the JV Company within 10 days after the Conditions Precedent are fulfilled or waived. Following the subscription of shares, the equity interest held by the respective parties shall be as follows:

	<u>No. of Shares</u>	<u>Percentage</u>
UDSB	12,750,000	60%
RSB	8,500,000 (including the existing 100,000 issued shares)	40%

The status of the Conditions Precedent are as follows:

Conditions Precedent		Status
1	The approvals of RSB and UDSB for the rolling business plan for the JV Company relating to the then current financial year and three succeeding financial years	Obtained
2	RSB and UDSB obtaining the approvals of their respective shareholders to the terms and conditions of the BJVA	Obtained
3	Obtaining the licence/consent from the Malaysian Palm Oil Board to commence construction of the bulking installation	Obtained
4	Increasing the authorised capital of the JV Company to RM50,000,000 consisting of 50,000,000 shares of RM1.00 each	Done
5	RSB and UDSB agreeing to the form and substance of the Land Sale and Purchase Agreement relating to the purchase of the Land and price relating thereto	Not yet agreed
6	RSB and UDSB agreeing to the terms and conditions of the Bulking Facilities User Agreement relating to the use of the JV Company's bulking facilities by Green Edible Oil Sdn Bhd ("GEOSB") (a wholly-owned subsidiary of the Group) operating a refinery in the vicinity of the Sawit POIC Area to produce refined palm oil products	Done
7	The JV Company (as sublessee) and Sandakan Bulkers (as sublessor) agreeing to the terms and conditions of the Pipe Rack Land Sublease relating to the sublease of a strip of land on which the JV Company's pipe racks would be erected	Not yet agreed
8	Issuance of the letter of offer in respect of the alienation of the Land by the Lands and Surveys Department	Issued
9	The JV Company obtaining such other authorizations, consents and permits as shall be necessary for commencing its business according to written laws	In progress

10	Sandakan Bulkers (as landowner and licensor) and the Offtaker (as licensee) agreeing to the form of the Land Licence Agreement for Sandakan Bulkers to grant a licence for the Offtaker to use a stretch of land for the purpose of building a pipe rack to carry pipes for liquid goods and water pipe	Not yet agreed
11	RSB issuing a letter to the JV Company promising to insert into all future sale and purchase agreements in respect of the sale of various lots within the Sawit POIC Area, words to restrict the use of the said lots for conducting bulking business	Done
12	The execution and delivery of KHB's Guarantee issued in favour of RSB to guarantee the performance, liabilities and obligations of UDSB under the BJVA	Done
13	RSB and UDSB agreeing to the rate of charges payable to the JV Company for each metric ton of goods loaded onto any barge or vessel at the mini jetty located adjacent to GEOSB's land	In progress

On 5 May 2016, UDSB received from RSB a draft Deed of Variation proposing the following major changes to the BJVA:

- the respective proportions in which UDSB and RSB will hold the issued ordinary share capital of the JV Company from time to time shall be as follows:

<u>Party</u>	<u>Percentage</u>
UDSB	40%
RSB	60%

- the BJVA shall be inserted with a new Condition Precedent as follows:

"The relevant authority shall have issued separate land titles in respect of the lands which are the subject matter of the Pipe Rack Land Sublease."

The draft Deed of Variation is under consideration by the Board of Directors and an announcement will be made once a decision has been made.

(b) Potential offer to acquire Kretam Holdings Berhad (KHB) shares by Hap Seng Plantations Holdings Berhad (HSPB) ("Potential Offer")

On 21 February 2018, KHB was informed by its Executive Director/Chief Executive Officer and the controlling shareholder, Datuk Lim Nyuk Sang @ Freddy Lim ("Datuk Freddy") that he had on even date, entered into the following agreements with Hap Seng Plantations Holdings Berhad ("HSPB") to divest his direct and indirect shareholdings in KHB as follows:

- conditional share sale agreement between Datuk Freddy and HSPB for the sale of 779,336,900 KHB shares, representing approximately 33.5% equity interest in KHB, for a cash consideration of RM716,989,948 or RM0.92 per KHB share; and
- conditional share sale agreement between Santraprise Sdn Bhd (a company controlled by Datuk Freddy) and HSPB for the sale of 500,857,600 KHB shares, representing approximately 21.5% equity interest in KHB, for a cash consideration of RM460,788,992 or RM0.92 per KHB share.

The above conditional share sale agreements, if become unconditional, would eventually result in HSPB emerging as a 55% shareholder in KHB and thereby incurring the obligation to extend a mandatory take-over offer for the remaining issued shares in KHB not already owned by HSPB and persons acting in concert with HSPB at RM0.92 per KHB share, in accordance with the Rules on Take-Overs, Mergers and Compulsory Acquisitions 2016 ("Rules") ("Offer"). Upon the above conditional share sale agreements becoming unconditional, HSPB would serve the notice of Offer on the Board of KHB in accordance with the Rules.

Subsequent to the announcement on the Potential Offer, a due diligence of KHB was requested by HSPB.

KHB made an announcement on 13 April 2018 to draw attention to HSPB's further announcement on 10 April 2018 which highlighted that one of the conditions of the conditional share sale agreements was the notification by HSPB in writing of the acceptance of the results of the due diligence of KHB ("Due Diligence Condition") and in relation thereto clarified that HSPB had the right to declare the Due Diligence Condition not met if there were adverse findings such as the following:

- the final professional valuation of all the plantation estates, palm oil mills, refinery, biodiesel plant, jetty, fertiliser plants and/or offices of the KHB Group was lower than the indicative valuation by the Valuer; or
- the information disclosed by the Vendors about the KHB Group (including its assets and liabilities, whether actual or contingent) was inaccurate; or
- there had been non-disclosure of information about the KHB Group by the Vendors; or
- there had been a breach of any laws, regulations or contract by the KHB Group; or

- e. there were adverse findings from the financial due diligence; or
- f. there were adverse findings from the legal due diligence; or
- g. there were adverse findings from the operational due diligence.

On 18 May 2018, KHB was informed by its Executive Director/ Chief Executive Officer and the controlling shareholder, Datuk Freddy that he and Santraprise Sdn Bhd had on even date agreed to extend the expiry of the Due Diligence Period until 4 June 2018.

On 25 May 2018, KHB was informed by its Executive Director/Chief Executive Officer and the controlling shareholder, Datuk Freddy that he and Santraprise Sdn Bhd had on even date agreed to further extend the Due Diligence Period until 30 June 2018.

On 14 June 2018, KHB was informed by its Executive Director/Chief Executive Officer and the controlling stakeholder, Datuk Freddy that HSPB had decided to terminate the respective conditional share sale agreements with him and Santraprise Sdn Bhd. Accordingly, the Offer would not materialize.

20. GROUP BORROWINGS

	As at 30.06.2018 RM'000	As at 30.12.2017 RM'000
Short term secured:		
Hire purchases	554	202
Bankers' acceptances	87,343	105,754
Revolving credit	0	0
Term loans	10,999	11,018
Foreign Bill of Exchange	0	13,245
	98,896	130,219
Long term secured:		
Hire purchases	605	601
Term loans	8,281	13,750
	8,886	14,351
TOTAL BORROWINGS	107,782	144,570

The above borrowings are denominated in Malaysian Ringgit except where otherwise indicated.

21. ADDITIONAL DISCLOSURES

(a) Financial Derivatives

Outstanding financial derivatives held by the Group as at 30 June 2018 are as follows:

	Currency	Contract/ Notional Amount '000	Fair Value	
			Assets RM'000	Liabilities RM'000
US Dollar forward contracts - less than 1 year	USD	11,453	0	508
Palm oil futures contracts - less than 1 year	RM	55,915	0	1,303
Olein price swap contracts - less than 1 year	USD	16,329	0	382

(b) Gains/(Losses) Arising from Fair Value Changes of Financial Liabilities

For the period ended 30 June 2018, there were no gains or losses arising from changes to fair values of the Group's financial liabilities.

22. CHANGES IN STATUS OF MATERIAL LITIGATION UP TO 21 AUGUST 2018

Not applicable as the Group is not involved in any material litigation.

23. DIVIDENDS DECLARED

No dividend has been declared or recommended in respect of the period under review.

24. EARNINGS/(LOSS) PER SHARE (“EPS”)

Basic and diluted EPS for the period under review is calculated based on the following:

	Quarter ended <u>30.06.2018</u>	6 months ended <u>30.06.2018</u>
Weighted average number of shares in issue	2,327,627,135	2,327,627,135
Number of shares used in calculating diluted EPS	2,327,627,135	2,327,627,135
	<u>RM'000</u>	<u>RM'000</u>
Profit/(loss) after taxation from continuing operations	(3,716)	(2,075)
less: (profit)/loss after taxation from continuing operations attributable to non-controlling interests	(106)	(227)
Profit/(loss) after taxation from continuing operations attributable to shareholders of the Company	<u>(3,822)</u>	<u>(2,302)</u>
EPS:	<u>Sen</u>	<u>Sen</u>
- Basic	<u>(0.16)</u>	<u>(0.10)</u>
- Diluted	<u>(0.16)</u>	<u>(0.10)</u>

Basic EPS is calculated by dividing “Profit/(loss) after taxation attributable to shareholders of the Company” by the “Weighted average number of shares in issue”.

Diluted EPS is calculated by dividing “Adjusted profit/(loss) after taxation” by the “Number of shares used in calculating diluted EPS”.

25. AUDITOR’S REPORT ON THE PREVIOUS YEAR’S FINANCIAL STATEMENTS

The auditors’ report on the Group’s consolidated financial statements for the year ended 31 December 2017 was not qualified.

26. AUTHORISED FOR ISSUE

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board on 27 August 2018.

By Order of the Board,

DATUK LIM NYUK SANG @ FREDDY LIM
Chief Executive Officer
27 August 2018