

DELEUM BERHAD (715640-T)
(Incorporated in Malaysia)

**UNAUDITED INTERIM FINANCIAL REPORT
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. BASIS OF PREPARATION

The unaudited interim financial report has been prepared in accordance with the reporting requirements as set out in Malaysian Financial Reporting Standards No.134 – “Interim Financial Reporting” and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The unaudited interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the attached explanatory notes. These explanatory notes 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 financial year ended 31 December 2015.

The significant accounting policies and methods of computation applied in the unaudited interim financial report are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2015.

The amendments to published standards effective for financial year beginning on 1 January 2016 that are applicable and adopted by the Group as follows:

- Amendments to MFRS 116 Property, Plant and Equipment and MFRS 138 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 127 Separate Financial Statements – Equity Accounting in Separate Financial Statements
- Annual Improvements to MFRS 2012 – 2014 cycle (Amendments to MFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, MFRS 7 Financial Instruments: Disclosures, MFRS 119 Employee Benefits and MFRS 134 Interim Financial Reporting)
- Amendments to MFRS 10 Consolidated Financial Statements, MFRS 12 Disclosure of Interests in Other Entities and MFRS 128 Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception
- Amendments to MFRS 101 Presentation of Financial Statements – Disclosure Initiatives

The adoption of the above Annual Improvements and Amendments to MFRSs do not have a material impact to the Group for the financial year ending 31 December 2016.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A1. BASIS OF PREPARATION (Cont'd)

The Group has not early adopted the following accounting standards and amendments to published standards that have been issued by the Malaysian Accounting Standards Board (“MASB”) as these are effective for the financial period beginning on or after 1 January 2017.

Amendments to MFRS 107	Disclosure Initiatives (effective 1 January 2017)
Amendments to MFRS 112	Recognition of Deferred Tax Assets for Unrealised Losses (effective 1 January 2017)
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018)
MFRS 15	Revenue from Contracts with Customers (effective 1 January 2018)
MFRS 9	Financial Instruments (effective 1 January 2018)
MFRS 16	Leases (effective 1 January 2019)

The initial application of the aforementioned accounting standards and amendments to published standards are not expected to have any material impacts to the financial statements of the Group except as mentioned below:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces MFRS 118 Revenue and MFRS 111 Construction contracts and related interpretations. The standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The adoption of MFRS 15 will result in a change in accounting policy. The Group is currently assessing the financial impact of adopting MFRS 15.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A2. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS

The Group's operations are not affected by any significant seasonal or cyclical factors in the financial year under review. It should be noted that the Group operates predominantly in the oil and gas sector in Malaysia. Accordingly, the level of the Group's business activities is closely correlated with that of the oil and gas operators and contractors in Malaysia. Any significant change in their level of activities will likewise have an impact on the Group.

A3. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE, OR INCIDENCE

There were no significant unusual items affecting the assets, liabilities, equity, net income or cash flows during the financial year-to-date.

A4. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES

There were no material changes to estimates that have had any material effect on the financial year-to-date results.

A5. EQUITY AND DEBT SECURITIES

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial year-to-date.

A6. OUTSTANDING DERIVATIVES

The Group had not entered into any new type of derivative in the current interim quarter that was not disclosed in the preceding year's annual financial statements. The Group did not have any outstanding derivative as at 30 September 2016.

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A7. FAIR VALUE CHANGES OF FINANCIAL LIABILITIES

The Group did not have any financial liabilities measured at fair value through profit or loss as at 30 September 2016.

A8. DIVIDENDS PAID

During the first quarter of the financial year, the Company paid the following second interim single tier dividend of 3.5 sen per share of RM0.50 each on 400,000,000 ordinary shares, in respect of the financial year ended 31 December 2015.

	RM'000
Second interim single tier dividend of 3.5 sen per share on 400,000,000 ordinary shares, paid on 25 March 2016	<u>14,000</u>

During the current quarter under review, the Company paid a first interim single tier dividend of 1.25 sen per share of RM0.50 each on 400,000,000 ordinary shares, in respect of the financial year ending 31 December 2016.

	RM'000
First interim single tier dividend of 1.25 sen per share on 400,000,000 ordinary shares, paid on 26 September 2016	<u>5,000</u>

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION

The segments of the Group are as follows:

- Power and Machinery (“P&M”) – Mainly consists of:-
 - Sale of gas turbines and related parts, and overhaul of turbines, maintenance and technical services, including complete installation turnkey for new installations, package renewals and retrofit projects;
 - Supply and commission combined heat and power plants;
 - Supply, install, repair and maintenance of valves, flow regulators and other production related equipment; and
 - Repair, servicing, maintenance and overhaul of motors, generators, transformers and pumps.

- Oilfield Services (“OS”) – Mainly consists of:-
 - Provision of slickline equipment and services;
 - Provision of integrated wellhead maintenance services;
 - Provision of oilfield chemicals; and
 - Provision of drilling equipment and services and other oilfield products and technical services.

- Integrated Corrosion Solution (“ICS”) – Mainly consists of:-
 - Provision of integrated corrosion and inspection services, blasting technology and services for tanks, vessels, structures and piping.

- Other non-reportable segment comprises management fees charged to a joint venture which does not meet the quantitative thresholds for reporting segment in 2016.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION (Cont'd)

Segmental information for the financial period ended 30 September 2016 was as follows:

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
<u>Segment Revenue</u>				
Power and Machinery				
External revenue	95,020	87,516	277,285	314,033
Power and Machinery	95,020	87,516	277,285	314,033
Oilfield Services				
External revenue	32,432	24,520	99,230	100,957
Oilfield Services	32,432	24,520	99,230	100,957
Integrated Corrosion Solution				
External revenue	11,711	16,657	30,578	31,426
Integrated Corrosion Solution	11,711	16,657	30,578	31,426
Other non-reportable segment				
External revenue	84	79	270	158
Other non-reportable segment	84	79	270	158
Total Group revenue	139,247	128,772	407,363	446,574

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION (Cont'd)

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
<u>Segment Results</u>				
Power and Machinery	5,390	18,864	22,953	44,601
Oilfield Services	5,385	(3,372)	10,586	7,574
Integrated Corrosion Solution	253	1,527	687	(357)
Other non-reportable segment	4	4	13	8
Segment results	11,032	17,023	34,239	51,826
Unallocated income ^	50	18	402	74
Unallocated corporate expenses #	(1,905)	(1,743)	(3,269)	(6,449)
Share of results of a joint venture *	185	175	493	788
Share of results of associates *	(116)	726	198	5,982
Tax expense *	(5,539)	(3,640)	(11,605)	(11,054)
Profit from continuing operations	3,707	12,559	20,458	41,167
Profit from discontinued operation, net of tax	0	0	0	1,041
Profit for the financial period	3,707	12,559	20,458	42,208

^ Unallocated income comprised mainly interest earned by the Group.

Unallocated corporate expenses represented the Group's corporate expenses including depreciation of property, plant and equipment of corporate assets that were not charged to business segments.

* Tax expense, results of joint venture and associates were not allocated to the business segments as they were measured at the entity level.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A9. SEGMENT INFORMATION (Cont'd)

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
<u>Segment Assets</u>		
Power and Machinery	188,416	253,817
Oilfield Services	251,323	280,931
Integrated Corrosion Solution	31,226	33,039
Segment assets	470,965	567,787
Unallocated corporate assets ^	111,989	104,979
Total assets	582,954	672,766

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
<u>Segment Liabilities</u>		
Power and Machinery	88,028	142,813
Oilfield Services	123,790	155,912
Integrated Corrosion Solution	19,053	20,737
Segment liabilities	230,871	319,462
Unallocated corporate liabilities #	33,082	34,317
Total liabilities	263,953	353,779

^ Unallocated corporate assets represented the Group's corporate assets including property, plant and equipment, investment properties, intangible assets, investment in joint venture and associates, deferred tax assets and tax recoverable that were not allocated by business segments.

Unallocated corporate liabilities represented the Group's corporate liabilities including deferred tax liabilities, taxation and dividend payable that were not allocated by business segments.

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A10. ACQUISITIONS AND DISPOSALS OF PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the current and cumulative quarters ended 30 September 2016, the acquisitions and disposals of plant and equipment and intangible assets by the Group were as follows:

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Acquisitions at cost:-				
- Plant and equipment	347	45,442	3,332	24,296
- Intangible assets	26	392	388	531
Disposals at net book value:-				
- Plant and equipment	0	1	301	331

A11. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE REPORTING DATE

There was no other material event after the end of the reporting date.

A12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the financial year-to-date.

A13. CONTINGENT LIABILITIES / ASSETS

As at 30 September 2016, the Group did not have any contingent liabilities or assets except for guarantees given to third parties in relation to operating requirements, utilities and maintenance contracts of RM28.5 million (31 December 2015: RM30.7 million).

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A14. COMMITMENTS

(a) Capital commitment

Capital commitments for property, plant and equipment and intangible assets not provided for as at 30 September 2016 were as follows:

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Authorised but not contracted for		
- Plant and machinery	5,145	18,012
- Others	4,632	6,368
Authorised and contracted for		
- Plant and machinery	847	433
- Others	121	472
	10,745	25,285
Share of capital commitment of joint venture	1,214	1,420
	11,959	26,705

(b) Operating lease commitment

The Group has lease commitments in respect of rented premises which are classified as operating leases. A summary of the non-cancellable long-term commitments were as follows:

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Within one year	435	667
Between two to five years	428	771
More than five years	0	9
	863	1,447

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A15. RELATED PARTY DISCLOSURES

- (a) The following transactions were with a corporate shareholder of a subsidiary of the Group, Turboservices Sdn. Bhd.

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Purchases and technical services from STICO	51,903	45,342	165,772	190,508

Significant outstanding balance arising from the above transactions as at 30 September 2016 was as follows:

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Amount due to STICO	51,403	83,365

- (b) The following transactions were with a corporate shareholder and affiliate companies of corporate shareholder of a subsidiary of the Group, Penaga Dresser Sdn. Bhd.

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Purchases from related parties of Dresser Italia S.R.L	3,774	5,893	19,654	17,137

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A15. RELATED PARTY TRANSACTIONS (Cont'd)

- (b) The following transactions were with a corporate shareholder and affiliate companies of corporate shareholder of a subsidiary of the Group, Penaga Dresser Sdn. Bhd. (cont'd)

Significant outstanding balance arising from the above transactions as at 30 September 2016 was as follows:

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Amount due to related parties of Dresser Italia S.R.L	1,653	7,903

- (c) Turboservices Overhaul Sdn. Bhd. ("TOSB") is a joint venture between Deleum Berhad and STICO and the related party transactions during the period were as follows:

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Sales to STICO	1,400	1,400	4,200	3,515
Rental income from affiliate company of STICO	207	207	621	414

Significant outstanding balance arising from the above transactions as at 30 September 2016 were as follows:

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Amount due from STICO	989	1,062

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PART A: EXPLANATORY NOTES PURSUANT TO MFRS 134 (Cont'd)

A15. RELATED PARTY TRANSACTIONS (Cont'd)

(d) The remuneration of the key management personnel during the quarter and year-to-date were as follows:

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Directors' fees	236	236	707	727
Salaries, bonuses, allowances and other staff related expenses	1,796	1,814	8,686	6,832
Defined contribution plan	250	237	957	742
	2,282	2,287	10,350	8,301

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

B1. PERFORMANCE REVIEW

(A) Performance of the current quarter against the corresponding quarter

Revenue	Q3'16 RM'000	Q3'15 RM'000	Variance RM'000	Variance %
Power and Machinery	95,020	87,516	7,504	8.6
Oilfield Services	32,432	24,520	7,912	32.3
Integrated Corrosion Solution	11,711	16,657	(4,946)	(29.7)
Other non-reportable segment	84	79	5	6.3
	<u>139,247</u>	<u>128,772</u>	<u>10,475</u>	<u>8.1</u>

Business prospect remained subdued as the imbalance between supply and demand exerted downward pressure on oil prices. Major customers continued to undertake various cost cutting measures which adversely affected the level of business activities in the oil and gas sector. Despite the challenges faced, the Group managed to record a positive revenue growth from the Power and Machinery and Oilfield Services segments. However, Integrated Corrosion Solution segment posted lower revenue from the Pan Malaysia Blasting Contract.

The **Power and Machinery** segment recorded an increase in revenue by RM7.5 million against the corresponding quarter mainly attributable to higher revenue contribution from the exchange engines of RM16.8 million on the back of fulfilment of orders secured in previous quarter, offset partially against lower revenue from field services representative of RM1.4 million, retrofit revenue of RM3.5 million and supply, install, repair and maintenance of valves, flow regulators and other production related equipment of RM4.5 million.

The **Oilfield Services** segment experienced an expansion in revenue by RM7.9 million against the corresponding quarter mainly attributable to higher revenue contribution from slickline activities in East and West Malaysia due to higher utilisation of slickline assets of RM2.8 million and higher revenue contribution from the well intervention and enhancement services of RM4.5 million.

The **Integrated Corrosion Solution** segment experienced a revenue contraction of RM4.9 million compared to the corresponding quarter due to the delay in securing work orders that were received in the subsequent quarter from the Pan Malaysia Blasting Contract.

Other non-reportable segment comprised provision of management services to the joint venture.

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (Cont'd)

B1. PERFORMANCE REVIEW (Cont'd)

(B) Profit before tax for the current quarter against the corresponding quarter

	Q3'16 RM'000	Q3'15 RM'000	Variance RM'000	Variance %
Power and Machinery	5,390	18,864	(13,474)	(71.4)
Oilfield Services	5,385	(3,372)	8,757	259.7
Integrated Corrosion Solution	253	1,527	(1,274)	(83.4)
Other non-reportable segment	4	4	0	0.0
Segment results	<u>11,032</u>	<u>17,023</u>	<u>(5,991)</u>	<u>(35.2)</u>
Share of results of a joint venture, net of tax	185	175	10	5.7
Share of results of associates, net of tax	(116)	726	(842)	(116.0)
Profit before tax	<u>9,246</u>	<u>16,199</u>	<u>(6,953)</u>	<u>(42.9)</u>

Profit before tax decreased by RM7.0 million from RM16.2 million in the corresponding quarter to RM9.2 million in the current quarter. The reduction was mainly attributable to lower contributions from the Power and Machinery segment, Integrated Corrosion Solution segment and associates, offset partially by the increase in contribution from Oilfield Services segment of RM8.8 million.

The results of the **Power and Machinery** segment were lower by RM13.5 million against the corresponding quarter despite an increase in revenue as a direct consequence of downward pressure on margins and was further exacerbated by an exchange losses of RM3.1 million compared with RM5.2 million gains in the corresponding quarter as US Dollar strengthened against Ringgit Malaysia.

The **Oilfield Services** segment results were higher by RM8.8 million in line with higher revenue, mainly contributed by the slickline activities.

The **Integrated Corrosion Solution** segment results were lower by RM1.3 million against the corresponding quarter due to lower revenue earned in the current quarter.

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**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING
REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (Cont'd)**

B1. PERFORMANCE REVIEW (Cont'd)

(B) Profit before tax for the current quarter against the corresponding quarter (Cont'd)

Share of results of joint venture was contributed from overhaul and repairs of gas turbines.

Share of results of associates decreased from RM0.7 million in the corresponding quarter to a loss of RM0.1 million in the current quarter and was attributable to lower throughput from Malaysian Mud And Chemicals Sdn. Bhd. ("2MC") by RM0.7 million on the back of lower drilling activities. CUPL recorded a marginal profit of RM1,000 against a profit of RM 0.1 million in the corresponding quarter. CUPL had ceased operations with the expiration of the build, operate and transfer agreement with Electricite Du Cambodge in May 2015.

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (Cont'd)

B1. PERFORMANCE REVIEW (Cont'd)

(C) Performance of the current year-to-date against the corresponding year-to-date

	Cumulative Quarters ended		Variance RM'000	Variance %
	Q3'16 RM'000	Q3'15 RM'000		
Revenue				
Power and Machinery	277,285	314,033	(36,748)	(11.7)
Oilfield Services	99,230	100,957	(1,727)	(1.7)
Integrated Corrosion Solution	30,578	31,426	(848)	(2.7)
Other non-reportable segment	270	158	112	70.9
	<u>407,363</u>	<u>446,574</u>	<u>(39,211)</u>	<u>(8.8)</u>

Group revenue for the current 9-month period contracted by RM39.2 million compared with the corresponding period with lower contribution from the Power and Machinery and Oilfield Services segments.

The **Power and Machinery** segment recorded a decrease in revenue by RM36.7 million against the corresponding period mainly attributable to lower revenue contribution from retrofit projects of RM33.7 million and parts and repairs of RM17.6 million but offset partially against higher revenue contribution from exchange engines of RM11.9 million and fleet management system and training of RM1.9 million.

The **Oilfield Services** segment experienced a revenue contraction of RM1.7 million against the corresponding period mainly attributable to lower utilisation of slickline assets of RM1.0 million, lower wellhead maintenance activities of RM0.9 million, lower third party sales under slickline contracts of RM4.7 million, lower sales of drilling related products of RM1.7 million and lower centralizer revenue of RM1.1 million. The decrease was partially offset against higher revenue contribution from well intervention and enhancement activities of RM8.2 million.

The revenue contribution from the **Integrated Corrosion Solution** segment decreased by RM0.8 million compared to the corresponding period due to the lower work orders for corrosion protection and maintenance stemming from the Pan Malaysia Blasting Contract.

Other non-reportable segment comprised provision of management services to the joint venture.

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PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (Cont'd)

B1. PERFORMANCE REVIEW (Cont'd)

(D) Profit before tax for the current year-to-date against the corresponding year-to-date

	Cumulative Quarters ended		Variance RM'000	Variance %
	Q3'16 RM'000	Q3'15 RM'000		
Power and Machinery	22,953	44,601	(21,648)	(48.5)
Oilfield Services	10,586	7,574	3,012	39.8
Integrated Corrosion Solution	687	(357)	1,044	292.4
Other non-reportable segment	13	8	5	62.5
Segment results	<u>34,239</u>	<u>51,826</u>	<u>(17,587)</u>	<u>(33.9)</u>
Share of results of a joint venture, net of tax	493	788	(295)	(37.4)
Share of results of associates, net of tax	198	5,982	(5,784)	(96.7)
Profit before tax	<u>32,063</u>	<u>52,221</u>	<u>(20,158)</u>	<u>(38.6)</u>

The Group recorded profit before tax of RM32.1 million for the current 9-month period compared to RM52.2 million in the corresponding period. The reduction was mainly attributable to lower contributions from the Power and Machinery segment and associates. However, the results were partially offset by the recovery of a previously impaired non trading debt of RM2.3 million.

The results of the **Power and Machinery** segment were lower by RM21.6 million due in part to lower revenue as well as foreign exchange losses of RM0.4 million in current 9-month period compared to gains of RM6.8 million in the corresponding period.

The **Oilfield Services** segment results were higher by RM3.0 million mainly due to reduced finance costs on account of lower borrowings through scheduled repayments and foreign exchange gains of RM0.1 million compared with RM1.9 million losses in the corresponding period.

The **Integrated Corrosion Solution** segment turned around its results from a loss of RM0.4 million to a profit of RM0.7 million in the current period as costs to serve were lower as the benefits of the cost reduction initiatives implemented in the current financial period began to gain traction.

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REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (Cont'd)**

B1. PERFORMANCE REVIEW (Cont'd)

- (D) Profit before tax for the current year-to-date against the corresponding year-to-date (Cont'd)

Share of results of joint venture was contributed from overhaul and repairs of gas turbines.

Share of results of associates decreased from RM6.0 million in the corresponding period to RM0.2 million in the current period and was attributable to lower throughput from 2MC by RM2.5 million on the back of lower drilling activities. The Group's share of loss from CUPL in the current period was RM11,000 against a profit of RM3.3 million in the corresponding period following the cessation of business in May 2015.

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B2. MATERIAL CHANGE IN THE PROFIT BEFORE TAX AS COMPARED WITH THE IMMEDIATE PRECEDING QUARTER PROFIT BEFORE TAX

	Q3'16 RM'000	Q2'16 RM'000	Variance RM'000	Variance %
Revenue				
Power and Machinery	95,020	67,627	27,393	40.5
Oilfield Services	32,432	35,116	(2,684)	(7.6)
Integrated Corrosion Solution	11,711	13,400	(1,689)	(12.6)
Other non-reportable segment	84	100	(16)	(16.0)
	139,247	116,243	23,004	19.8
	Q3'16 RM'000	Q2'16 RM'000	Variance RM'000	Variance %
Power and Machinery	5,390	7,562	(2,172)	(28.7)
Oilfield Services	5,385	2,882	2,503	86.8
Integrated Corrosion Solution	253	1,081	(828)	(76.6)
Other non-reportable segment	4	5	(1)	(20.0)
Segment results	11,032	11,530	(498)	(4.3)
Share of results of a joint venture, net of tax	185	180	5	2.8
Share of results of associates, net of tax	(116)	81	(197)	(243.2)
Profit before tax	9,246	11,329	(2,083)	(18.4)

Quarter on quarter, the Group experienced a contraction in profit contribution from the Power and Machinery and Integrated Corrosion Solution segments as well as associates. The contraction was offset by increased contribution from the Oilfield Services segment. However, profit before tax decreased by RM2.1 million as the results of the preceding quarter was impacted by the recovery of a previously impaired non trading debt of RM2.3 million.

Power and Machinery segment recorded a profit of RM5.4 million for the current quarter compared to RM7.6 million in the preceding quarter. The adverse variance was mainly attributable to foreign exchange losses suffered in current quarter against gains in the preceding quarter.

Oilfield Services segment recorded an improved result of RM 5.4 million in the current quarter compared to RM2.9 million in the preceding quarter on the back of lower costs to serve and tighter control of operating expenses.

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B2. MATERIAL CHANGE IN THE PROFIT BEFORE TAX AS COMPARED WITH THE IMMEDIATE PRECEDING QUARTER PROFIT BEFORE TAX (Cont'd)

Integrated Corrosion Solution segment recorded a lower profit of RM0.3 million in the current quarter compared to the preceding quarter of RM1.1 million mainly attributable to lower revenue in the current quarter.

Share of results of joint venture was contributed from overhaul and repairs of gas turbines.

Share of results of associates decreased by RM0.2 million attributable to the decrease in 2MC's results.

B3. PROSPECTS

Crude oil prices in 2016 stay volatile and had entered a period of prolonged low prices. This trend is expected to continue into 2017. Trading conditions experienced to date in this financial year were tough, characterised by intense downward price pressure from competitors. Consequently, whilst revenue for the nine months in the current financial year eased by 8.8%, segmental results contracted by 33.9% compared with the corresponding period.

Our key business partners continued to recalibrate operations to meet the challenges posed by prolonged low oil prices by aggressively trimming both operating and investment budgets. With little positive change to the trading outlook, management expects the Group's performance for the remaining quarter of this financial year to be subdued, and trading prospects in 2017 are expected to be tougher. In the circumstances management will continue to stay vigilant and focus on reducing costs and working capital and to conserve free cash.

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B4. PROFIT FORECAST

The Group has not issued any profit forecast for the current financial year and therefore no comparison is available.

B5. INCOME TAX EXPENSE

Current income tax is calculated at the statutory rate of 24% of the assessable profit for the year. The statutory tax rate was reduced to 24% from previous year's statutory tax rate of 25% effective year of assessment 2016. The computation of the deferred tax as at 30 September 2015 had reflected this change.

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Current tax – current year	1,823	1,554	5,928	10,833
(Over) / under provision in prior period	(39)	73	(689)	(1)
Deferred tax				
– origination and reversal of temporary differences	686	2,013	3,297	222
– reversal of deferred tax asset recognised in prior periods*	3,069	0	3,069	0
Total income tax expense	5,539	3,640	11,605	11,054

* During the quarter, management reappraised the business prospects and profitability of companies within the Group and their related deferred tax assets. As a result, the deferred tax assets recognised in prior periods relating to two companies are not expected to be utilised in the foreseeable future and accordingly reversed.

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B5. INCOME TAX EXPENSE (Cont'd)

Including the joint venture's and associates' results which were presented net of tax, the effective tax rate of the Group for the financial period ended 30 September 2016 was higher than the headline tax rate as shown below.

	Cumulative Quarters ended	
	30/09/2016 %	30/09/2015 %
Numerical reconciliation between the effective tax rate and the Malaysian tax rate		
Malaysian tax rate	24	25
<u>Tax effects of:</u>		
- Expenses not deductible for tax purposes	4	0
- Income not subject to tax	(2)	(1)
- Share of results of associates and joint venture	0	(3)
- Deferred tax asset not recognised	2	0
- Over provision in prior year	(1)	0
- Reversal of deferred tax asset recognised in prior periods	9	0
Effective tax rate	36	21

B6. PROFIT ON SALES OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There were no sales of unquoted investments and/or properties during the financial year-to-date.

B7. QUOTED SECURITIES

There were no sales or purchases of quoted securities during the financial year-to-date.

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B8. STATUS OF CORPORATE PROPOSALS ANNOUNCED

There were no corporate proposals announced which is not completed as of 15 November 2016 (being the latest practicable date which shall not be earlier than 7 days from the date of issue of this report).

B9. JOINT VENTURE

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Group's share of net assets of joint venture	27,515	27,022

TOSB was a wholly owned subsidiary of the Group. It was incorporated in Malaysia and its main activities included the provision of gas turbine overhaul and maintenance services. In March 2015, the Group entered into a Subscription Agreement with STICO, which resulted in the Group having an equity interest of 80.55%. However, there are certain reserved matters within the Subscription Agreement that require the approval of both parties. Accordingly, under current accounting rules and in the opinion of the Directors, TOSB is regarded as a material joint venture and its results and net assets are accounted under the equity method of accounting.

The capital of TOSB consists of ordinary shares and redeemable convertible preference shares. It is a private company and there is no readily available quoted market price available for its shares.

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B9. JOINT VENTURE (Cont'd)

Summarised statement of comprehensive income

	Quarter ended		Year-to-date ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Profit before tax	311	288	843	1,342
Income tax expense	(82)	(71)	(231)	(364)
Profit for the period	<u>229</u>	<u>217</u>	<u>612</u>	<u>978</u>
Interest in joint venture (80.55%) Share of results	<u>185</u>	<u>175</u>	<u>493</u>	<u>788</u>

B10. ASSOCIATES

	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Group's share of net assets of associates	<u>44,688</u>	<u>44,750</u>

In the opinion of the Directors, 2MC and CUPL are material associates to the Group. The Group's effective equity interest in the associates, the nature of the relationship and place of business / country of incorporation are set out in the audited financial statements for the financial year ended 31 December 2015. The associates have share capitals consisting solely of ordinary shares, which are held directly by the Group.

Both associates are private companies and there is no quoted market price available for the shares.

The power generating facility operated by CUPL under a build, operate and transfer agreement with Electricite Du Cambodge expired on 8 May 2015. Upon its expiration, the Company will continue to equity account for the results of CUPL until it ceases to be an associate. The share of loss from this associate and its contribution to the loss attributable to the shareholders of the Company in the financial year ended 30 September 2016 amounted to RM11,000 (30 September 2015: profit of RM3,279,400) and RM6,600 (30 September 2015: profit of RM1,967,600) respectively.

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B10. ASSOCIATES (Cont'd)

Summarised statement of comprehensive income

	2MC		CUPL		Total	
	Quarter ended 30/09/2016 RM'000	Quarter ended 30/09/2015 RM'000	Quarter ended 30/09/2016 RM'000	Quarter ended 30/09/2015 RM'000	Quarter ended 30/09/2016 RM'000	Quarter ended 30/09/2015 RM'000
(Loss) / profit before tax	(338)	2,241	5	736	(333)	2,977
Income tax expense	(28)	(394)	0	(60)	(28)	(454)
(Loss) / profit for the period	<u>(366)</u>	<u>1,847</u>	<u>5</u>	<u>676</u>	<u>(361)</u>	<u>2,523</u>
Interest in associates (32%; 20%) Share of results	<u>(117)</u>	<u>591</u>	<u>1</u>	<u>135</u>	<u>(116)</u>	<u>726</u>

	2MC		CUPL		Total	
	Year-to-date ended 30/09/2016 RM'000	Year-to-date ended 30/09/2015 RM'000	Year-to-date ended 30/09/2016 RM'000	Year-to-date ended 30/09/2015 RM'000	Year-to-date ended 30/09/2016 RM'000	Year-to-date ended 30/09/2015 RM'000
Profit before tax	632	11,046	32	17,879	664	28,925
Income tax expense	21	(2,600)	(86)	(1,482)	(65)	(4,082)
Profit / (loss) for the period	<u>653</u>	<u>8,446</u>	<u>(54)</u>	<u>16,397</u>	<u>599</u>	<u>24,843</u>
Interest in associates (32%; 20%) Share of results	<u>209</u>	<u>2,703</u>	<u>(11)</u>	<u>3,279</u>	<u>198</u>	<u>5,982</u>

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B11. GROUP BORROWINGS

The Group borrowings as at 30 September 2016 were as follows:

	Short Term RM '000	Long Term RM '000	Total RM '000
<u>30/09/2016</u>			
Borrowings - secured	24,616	61,499	86,115
- unsecured	30,950	0	30,950
	<u>55,566</u>	<u>61,499</u>	<u>117,065</u>
<u>31/12/2015</u>			
Borrowings - secured	24,626	79,960	104,586
- unsecured	32,800	0	32,800
	<u>57,426</u>	<u>79,960</u>	<u>137,386</u>

The borrowings were all denominated in Ringgit Malaysia.

	Note	As at 30/09/2016 RM'000	As at 31/12/2015 RM'000
Revolving credits	(i)	30,950	32,800
Finance lease liabilities	(ii)	16	37
Term loan	(iii)	86,099	104,549
		<u>117,065</u>	<u>137,386</u>
Less: Amount repayable within 12 months			
Revolving credits		(30,950)	(32,800)
Loans against import		0	0
Finance lease liabilities		(16)	(26)
Term loan		(24,600)	(24,600)
		<u>(55,566)</u>	<u>(57,426)</u>
Amount repayable after 12 months		<u>61,499</u>	<u>79,960</u>

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B11. GROUP BORROWINGS (Cont'd)

- (i) Revolving credits are rolled over on a monthly basis at an average interest rate of 4.75% (average interest of 1.20% per annum above the bank's cost of funds).
- (ii) Finance lease liabilities carry interest rate of 2.55% - 2.56% per annum.
- (iii) Term loan carries an average interest rate of 4.17% (0.85% per annum above the bank's cost of funds). The tenure of the loan is 5 years.

B12. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instrument as at 30 September 2016.

B13. MATERIAL LITIGATION

There was no material litigation as at 15 November 2016 (being the latest practicable date which shall not be earlier than 7 days from the date of issue of this report).

B14. DIVIDEND

Save as disclosed in A8, there were no other dividends declared / paid during the quarter under review for the financial year ending 31 December 2016.

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B15. EARNINGS PER SHARE (“EPS”)

The calculations of basic and diluted earnings per share for the reporting periods are computed as follows:

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Basic earnings per share				
Profit attributable to equity holders of the Company (RM'000)	3,346	9,056	16,634	34,372
Number of ordinary shares at the beginning of the year ('000)	400,000	400,000	400,000	400,000
Basic earnings per share (sen)				
- From continuing operations	0.84	2.26	4.16	8.33
- From discontinued operation	0.00	0.00	0.00	0.26
Basic earnings per share	0.84	2.26	4.16	8.59

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B15. EARNINGS PER SHARE (“EPS”) (Cont'd)

The calculations of basic and diluted earnings per share for the reporting periods are computed as follows (Cont'd):

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Diluted earnings per share				
Profit attributable to equity holders of the Company (RM'000)	3,346	9,056	16,634	34,372
Adjusted weighted average number of ordinary shares as per basic earnings per share (Restated) ('000)	405,248	401,870	400,000	400,000
Effect of potential vesting of Long Term Incentive Plan	0	0	5,248	1,870
Weighted average number of ordinary shares ('000)	405,248	401,870	405,248	401,870
Diluted earnings per share (Restated) (sen)				
- From continuing operations	0.83	2.25	4.10	8.29
- From discontinued operation	0.00	0.00	0.00	0.26
Diluted earnings per share	0.83	2.25	4.10	8.55

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B16. PROFIT BEFORE TAX

The following items have been charged / (credited) in arriving at profit before tax:

	Individual Quarter ended		Cumulative Quarters ended	
	30/09/2016 RM'000	30/09/2015 RM'000	30/09/2016 RM'000	30/09/2015 RM'000
Interest income	(305)	(278)	(1,123)	(859)
Other income including investment income	(91)	(263)	(577)	(805)
Interest expenses	1,295	1,794	4,139	5,794
Depreciation and amortisation	8,453	7,295	25,404	21,670
Write back of impairment for doubtful debts				
- Trade receivables	(3)	0	(3)	(301)
- Other receivables	(118)	0	(2,418)	0
Bad debts written off				
- Trade receivables	12	0	12	105
- Other receivables	0	0	60	0
Inventories written off	115	0	115	0
Impairment for doubtful debts				
- Trade receivables	110	229	281	576
Foreign exchange losses / (gains)				
- Realised	1,757	2,953	2,257	1,554
- Unrealised	1,430	(6,688)	(1,921)	(6,512)
Reversal of allowance for slow moving inventories	(16)	(13)	(78)	(32)
Provision for liquidated damages	257	0	295	2
Gain on disposals of property, plant and equipment	0	(151)	(93)	(162)
Gain on sale of discontinued operation	0	0	0	(1,127)

Other than as disclosed in the unaudited condensed interim consolidated statement of comprehensive income and as disclosed above, there were no impairment of assets and gain or loss on derivatives.

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B17. REALISED AND UNREALISED PROFITS

The breakdown of the retained profits of the Group into realised and unrealised profits, pursuant to a directive issued by Bursa Securities on 25 March 2010 and 20 December 2010 is as follows:

RM'000	Cumulative Quarters ended 30/09/2016	Cumulative Quarters ended 31/12/2015
Total retained profits of the Company and its subsidiaries:		
Realised	128,342	115,243
Unrealised	(17,821)	(7,551)
	110,521	107,692
Total share of retained profits from associated companies:		
Realised	45,323	45,200
Unrealised	(3,842)	(3,917)
	41,481	41,283
Total share of retained profits of joint venture:		
Realised	1,703	987
Unrealised	(435)	(212)
	1,268	775
Less: Consolidation adjustments	(10,381)	(4,495)
Total Group's retained profits	142,889	145,255

The determination of realised and unrealised profits is compiled based on Guidance of Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Securities Listing Requirements, issued by the Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profits above is solely for the purposes of complying with the disclosure requirements stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

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B18. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the financial year ended 31 December 2015 was unqualified.

B19. AUTHORISATION OF ISSUE

The interim financial report was authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated on 22 November 2016.

By order of the Board

Lee Sew Bee (MAICSA no. 0791319)
Lim Hooi Mooi (MAICSA no. 0799764)
Company Secretaries
Kuala Lumpur
22 November 2016