LOTTE CHEMICAL TITAN HOLDING BERHAD
(222357-P)

Unaudited condensed consolidated interim financial statements

For the quarter and year-to-date ended 30 June 2018

222357-P

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(Incorporated in Malaysia)

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The Board of Directors of Lotte Chemical Titan Holding Berhad ("LCT" or "the Company") is pleased to announce the following unaudited condensed consolidated financial statements of LCT and its subsidiaries ("the Group") for the quarter and year-to-date ended 30 June 2018, which should be read in conjunction with the accompanying explanatory notes on page 8 to 32.

Unaudited condensed consolidated statement of comprehensive income

	Note	Individual Quarter ended 30.6.2018 RM'000	Individual Quarter ended 30.6.2017 RM'000	Changes RM'000	Changes %	Cumulative Quarter ended 30.6.2018 RM'000	Cumulative Quarter ended 30.6.2017 RM'000	Changes RM'000	Changes %
Revenue	A8	2,275,537	1,776,280	499,257	28%	4,489,796	3,690,805	798,991	22%
Cost of goods sold		(1,983,513)	(1,552,846)	(430,667)	28%	(3,890,641)	(3,080,020)	(810,621)	26%
Gross profit		292,024	223,434	68,590	31%	599,155	610,785	(11,630)	-2%
Other income		36,924	5,251	31,673	603%	41,993	11,700	30,293	259%
Distribution expenses		(15,922)	(20,477)	4,555	-22%	(32,600)	(39,620)	7,020	-18%
Administrative expenses		(23,891)	(21,934)	(1,957)	9%	(47,259)	(45,211)	(2,048)	5%
Foreign exchange differences		52,158	12,276	39,882	325%	42,506	16,451	26,055	158%
Fair value changes on derivatives		(1,687)	(21,933)	20,246	-92%	(1,123)	16,920	(18,043)	-107%
Other expenses		(3,889)	(30,776)	26,887	-87%	(7,344)	(35,718)	28,374	-79%
Profit from operations		335,717	145,841	189,876	130%	595,328	535,307	60,021	11%
Finance income		25,252	1,250	24,002	1920%	50,063	4,849	45,214	932%
Finance costs	B6	(3,996)	(3,669)	(327)	9%	(7,707)	(7,885)	178	-2%
Net finance costs		21,256	(2,419)	23,675	-979%	42,356	(3,036)	45,392	-1495%
Share of results of associates		1,852	(16,024)	17,876	-112%	20,968	(18,506)	39,474	-213%
Profit before tax	B5	358,825	127,398	231,427	182%	658,652	513,765	144,887	28%
Income tax	B7	(43,173)	(13,660)	(29,513)	216%	(98,731)	(57,163)	(41,568)	73%
Net profit for the period		315,652	113,738	201,914	178%	559,921	456,602	103,319	23%

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(cont'd)

	Note	Individual Quarter ended 30.6.2018 RM'000	Individual Quarter ended 30.6.2017 RM'000	Cumulative Quarter ended 30.6.2018 RM'000	Cumulative Quarter ended 30.6.2017 RM'000
Other comprehensive income, net of tax					
Item that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit obligation		-	-	-	(17)
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation differences		391,434	(240,250)	(33,304)	(348,844)
		391,434	(240,250)	(33,304)	(348,861)
Total comprehensive income/ (loss) for the period		707,086	(126,512)	526,617	107,741
Net profit for the period attributable to:					
Owner of the Company		315,025	113,616	559,222	455,770
Non-controlling interests		627	122	699	832
		315,652	113,738	559,921	456,602
Total comprehensive income/(loss) for the period attributable to:					
Owner of the Company		705,085	(132,333)	525,979	101,533
Non-controlling interests		2,001	5,821	638	6,208
		707,086	(126,512)	526,617	107,741
Basic and diluted earnings per ordinary share (sen)	B17	13.86	6.58	24.60	26.38

The unaudited condensed consolidated statement of other comprehensive income should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Unaudited condensed consolidated statement of financial position

	Note	As at 30.6.2018 RM'000	As at 31.12.2017 RM'000
Assets			
Non-current assets			
Property, plant and equipment		5,305,403	5,339,448
Prepaid lease payments		56,870	52,454
Prepayment for acquisition of land		24,030	-
Investments in associates		2,067,912	2,054,139
		7,454,215	7,446,041
Current assets			
Inventories		1,416,762	1,153,472
Trade and other receivables		995,067	927,743
Tax recoverable		17,470	14,347
Prepayments		7,514	21,758
Derivative financial instruments		6,210	9,231
Cash and bank balances	B13	3,351,621	3,625,474
		5,794,644	5,752,025
Total assets		13,248,859	13,198,066
Equity and liabilities			
Capital and reserves			
Share capital		5,816,813	5,816,813
Other reserves		1,053,525	1,086,768
Retained earnings		4,892,520	4,856,084
Treasury shares, at cost		(226,252)	(226,252)
Total equity attributable to owner of the Company		11,536,606	11,533,413
Non-controlling interests		25,608	24,970
		11,562,214	11,558,383

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Unaudited condensed consolidated statement of financial position (cont'd)

	Note	As at 30.6.2018 RM'000	As at 31.12.2017 RM'000
Non-current liabilities			
Provision		369,717	392,856
Deferred tax liabilities		449,783	367,581
Defined benefit obligation		18,300	17,989
		837,800	778,426
Current liabilities			
Trade and other payables		842,035	859,864
Provision for taxation		6,598	732
Other financial liabilities		132	154
Derivative financial instruments		80	507
		848,845	861,257
Total liabilities		1,686,645	1,639,683
Total equity and liabilities		13,248,859	13,198,066
Net assets per share attributable to ordinary equity holders of the parent (RM)		5.08	5.07

The unaudited condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Unaudited condensed consolidated statement of changes in equity

		<---- Attributable to owners of the Company								
			<---- Non-distributable reserves ---->				Distributable			
	Note	Share capital RM'000	Share premium RM'000	Treasury Shares RM'000	Capital redemption reserves RM'000	Foreign currency translation reserve RM'000	Retained earnings RM'000	Total equity attributable to owners of the Company RM'000	Non-controlling interest RM'000	Total RM'000
At 1 January 2017		1,727,792	294,113	-	24,908	1,918,842	3,981,743	7,947,398	22,022	7,969,420
Net profit for the year		-	-	-	-	-	455,770	455,770	832	456,602
Other comprehensive (loss)/income		-	-	-	-	(354,220)	(17)	(354,237)	5,376	(348,861)
Total comprehensive income for the period		-	-	-	-	(354,220)	455,753	101,533	6,208	107,741
Dividends		-	-	-	-	-	(120,000)	(120,000)	-	(120,000)
Transition to no par value regime*		319,021	(294,113)	-	(24,908)	-	-	-	-	-
At 30 June 2017		2,046,813	-	-	-	1,564,622	4,317,496	7,928,931	28,230	7,957,161
At 1 January 2018		5,816,813	-	(226,252)	-	1,086,768	4,856,084	11,533,413	24,970	11,558,383
Net profit for the year		-	-	-	-	-	559,222	559,222	699	559,921
Other comprehensive loss		-	-	-	-	(33,243)	-	(33,243)	(61)	(33,304)
Total comprehensive income for the period		-	-	-	-	(33,243)	559,222	525,979	638	526,617
Dividends	A7, B16	-	-	-	-	-	(522,786)	(522,786)	-	(522,786)
At 30 June 2018		5,816,813	-	(226,252)	-	1,053,525	4,892,520	11,536,606	25,608	11,562,214

* Effective from 31 January 2017, the Companies Act 2016 ("the Act") abolished the concept of authorised share capital and par value of share capital. Consequently, the credit balances of the share premium and capital redemption reserves became a part of the Company's share capital pursuant to the transitional provision set out in Section 618(2) of the Act. Notwithstanding this provision, the Company may within 24 months from the commencement of the Act, use these amounts for purposes as set out in Sections 618(3) and 618(4) of the Act. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.

The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Unaudited condensed consolidated interim financial statements
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Unaudited condensed consolidated statement of cash flows

	Cumulative Quarter ended 30.6.2018 RM'000	Cumulative Quarter ended 30.6.2017 RM'000
Cash flows from operating activities		
Profit before tax	658,652	513,765
Adjustments for:-		
Depreciation of property, plant and equipment	236,679	213,015
Amortisation of prepaid land lease payments	1,399	1,401
Finance costs	7,707	7,885
Property, plant and equipment written off	-	20,269
Write-down of inventories to net realisable value	401	10,843
Expenses recognised in respect of defined benefit plan	2,072	2,101
Inventories written off	107	296
Reversal of impairment loss on other receivables	(1)	(18)
Share of results of associates	(20,968)	18,506
Loss/(Gain) on disposal of property, plant and equipment	187	(12)
Finance income	(50,063)	(4,849)
Fair value changes in derivatives	1,123	(16,920)
Loss/(Gain) on partial settlement of derivative financial instruments	220	(1,540)
Unrealised gain on foreign exchange	(70,458)	(10,104)
Operating profit before working capital changes	767,057	754,638
Change in inventories	(281,561)	(111,395)
Change in trade and other receivables	(66,384)	119,484
Change in trade and other payables	103,914	201,944
Cash generated from operations	523,026	964,671
Payments under defined benefit plan	(602)	(684)
Finance costs paid	(2,135)	(2,189)
Proceeds from partial settlement of derivative financial instruments	1,096	3,229
Income tax paid	(9,547)	(5,792)
Net cash generated from operating activities	511,838	959,235

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Unaudited condensed consolidated statement of cash flows (cont'd)

	Cumulative Quarter ended 30.6.2018 RM'000	Cumulative Quarter ended 30.6.2017 RM'000
Cash flows from investing activities		
Finance income received	50,063	4,849
Proceeds from disposal of property, plant and equipment	175	12
Acquisition of property, plant and equipment	(289,849)	(752,838)
Prepaid lease payments made	(5,840)	(16,082)
Prepayment for acquisition of land	(24,030)	-
Withdrawal of fund placements with licensed financial institutions	379,060	-
Investment in associate	-	(747,046)
Net cash generated from/(used in) investing activities	109,579	(1,511,105)
Cash flows from financing activities		
Interest paid on long-term borrowings	-	(649)
Repayments of long-term borrowings	-	(36,908)
Dividend paid	(522,786)	(120,000)
Share issuance costs and listing expenses paid	(179)	-
Net cash used in financing activities	(522,965)	(157,557)
Net increase/(decrease) in cash and cash equivalents	98,452	(709,427)
Effect of exchange rate changes on the balance of cash held in foreign currencies	6,755	(24,367)
Cash and cash equivalents at beginning of year	2,374,176	1,040,344
Cash and cash equivalents at end of year (Note B13)	2,479,383	306,550

The unaudited condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to these condensed consolidated financial statements.

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Part A - Explanatory notes pursuant to MFRS 134

A1. Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with IAS 34, MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements. They should also be read in conjunction with the financial statements of the Group for the year ended 31 December 2017 and the accompanying notes attached to the unaudited condensed consolidated interim financial statements.

These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on 31 July 2018.

A2. Significant accounting policies

The accounting policies and methods of computation adopted for the interim financial statements are consistent with those adopted for the audited consolidated financial statements of the Group for the financial year ended 31 December 2017, except for the adoption of the following amendments to MFRSs during the financial period:

Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
MFRS 9	Financial Instruments
MFRS 15	Revenue from Contracts with Customers
Amendments to MFRS 140	Transfers of Investment Property
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (Annual Improvements 2014 - 2016 Cycle)
Amendments to MFRS 128	Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (Annual Improvements 2014 - 2016 Cycle)
IC Interpretation 22	Foreign Currency Transactions and Advance

The adoption of the above amendments had no significant impact to the financial statements of the Group other than the following:

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A2. Significant accounting policies (cont'd)

MFRS 15 Revenue from Contracts with Customers (cont'd)

The core principle of MFRS 15 is that an entity should recognise revenue which depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

The Group adopted MFRS 15 using the modified retrospective method of adoption. The effect of adopting MFRS 15 is, as follow:

(i) Sale of goods

The Group contracts with its customers for sales of petrochemical products and polyolefin resins. The Group has concluded that revenue for sales of petrochemical products and polyolefin resins should be recognised at the point on time when the control of the asset is transferred to the customer, generally when risk and reward of the goods is transferred. Therefore, the adoption of MFRS 15 did not have any impact on the timing of revenue recognition for the sales of goods.

(ii) Rendering of services

The Group provides delivery services. These services are bundled together with the sale of goods to a customer. Previously, the Group accounts for the bundled sales as one deliverable and recognises revenue at a point in time. Upon the adoption of MFRS 15, the sale of goods and the rendering of delivery services are treated as separate deliverables of bundled sales. The considerations received or receivable are allocated between these deliverables based on relative stand-alone selling prices of each deliverable. The delivery services will be recognised over time and its stage of completion is measured using the actual time incurred to date compared to the estimated time needed to complete the delivery services.

As a result, costs relating to the fulfilment of the delivery services that were classified as distribution expenses in the comparative period has been reclassified as costs of goods sold under MFRS 15 in the current financial period. However, the identification of delivery services as a separate deliverables of bundled sales did not have any material impact on the amount and timing of revenue recognised and hence, there were no restatements made to the Group's opening retained earnings.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A2. Significant accounting policies (cont'd)

MFRS 15 Revenue from Contracts with Customers (cont'd)

(iii) Presentation and disclosure requirements

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relation between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note A8 for the disclosure on disaggregated revenue.

MFRS 9 Financial Instruments

MFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting.

The effect of adopting MFRS 9 is, as follows:

(i) Classification and measurement

Under MFRS 9, the Group's debt financial instruments are measured at amortised cost. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion"). The Group's debt financial instruments are classified as amortised costs as they are financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category comprises solely of the Group's *Trade and other receivables.*

The other financial assets of the Group comprise solely of the Group's investment in Total Return Equity Swap which is measured at fair value through profit and loss ("FVTPL") as this financial instrument fails the SPPI criterion.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on financial assets comprised solely of payments of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A2. Significant accounting policies (cont'd)

MFRS 9 Financial Instruments (cont'd)

(i) Classification and measurement (cont'd)

As the classification and measurement of the Group's financial assets under MFRS 9 is similar to the Group's previous classification and measurement under MFRS 139, there is no impact to the Group's statement of financial position and statement of other comprehensive income upon the adoption of MFRS 9.

(ii) Impairment

The adoption of MFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

MFRS 9 requires the Group to record an allowance for ECLs for all financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

For *Trade and other receivables,* the Group applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external indicates that the Group is unlikely to receive outstanding contractual amounts in full amount before taking into account any credit enhancements held by the Group.

Due to the strong creditworthiness of the Group's debtors, the adoption of the ECL requirements of MFRS 9 did not result in any increase in impairment allowance of the Group's financial assets.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A2. Significant accounting policies (cont'd)

MFRS 9 Financial Instruments (cont'd)

(iii) Hedge accounting

The Group does not apply hedge accounting and as such the hedging requirements of MFRS 9 did not have an impact on the Group's consolidated financial statements.

A3. Seasonality or cyclicality of operations

The petrochemical industry and the operating margins in this industry have historically been cyclical. Changes in supply and demand, both domestically and internationally (including in Southeast Asia, China and other markets the Group sells to), and resulting utilisation rates are key factors that influence the cycle and profitability of the petrochemical industry.

Supply is affected by significant capacity additions in the market, and if such additions are not matched by corresponding growth in demand, average industry utilisation rates and margins will face downward pressures. Conversely, if capacity additions are not able to keep up with increased demand, average industry utilisation rates and margins face upward pressure. As a result, the petrochemical industry is cyclical and characterised by periods of tight supply, leading to high utilisation rates and margins, followed by periods of oversupply primarily resulting from significant capacity additions, leading to reduced utilisation rates and margins. The demand and supply balance may favour one position or the other for an extended period of time and may not rebalance quickly.

As the petrochemical industry is cyclical, new investments usually occur at the same time, following periods of sustained higher profitability. Cyclical changes in supply and demand are usually closely linked to economic growth patterns, especially in China given its strong manufacturing base. Global supply is increasing, with renewed investments in the United States following increased shale gas availability, adding to the development of capacity in the Middle East and Asia, led by investments in China.

It is not possible to predict accurately the supply and demand balances, market conditions and other factors that may affect industry capacity utilisation rates and margins in the future.

We do not typically experience significant seasonality in our business operations.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A4. Exceptional items

There was no exceptional item during the period under review.

A5. Material changes in estimates

The Group regularly reviews the significant assumptions used in measuring its provision for dismantling cost to ensure that the assumptions are in line with economic measurements. In Q2 2018, based on an analysis performed by the management, the Group has revised the discount rate from 2.92% to 3.10%. This change has resulted in a decrease by approximately RM27,395,000 in the provision for dismantling cost.

A6. Debt and equity securities

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

A7. Dividend paid

During the 6 months financial period ended 30 June 2018, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2017, of 23.0 sen per share on 2,272,983,500 ordinary shares, amounting to a dividend of RM 522,786,205.

During the 6 months financial period ended 30 June 2017, the Company paid a final single tier dividend in respect of the financial year ended 31 December 2016, of 6.95 sen per share on 1,727,792,000 ordinary shares, amounting to a dividend of RM120,000,000.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A8. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Olefins and derivative products RM'000	Polyolefin products RM'000	Total RM'000
For the period ended 30 June 2018			
Geographical markets			
Malaysia	267,657	1,442,100	1,709,757
Indonesia	162,787	1,038,037	1,200,824
China (including Hong Kong)	395,635	224,202	619,837
Southeast Asia	92,448	270,759	363,207
Others	328,527	267,644	596,171
Total revenue from contracts with customers	1,247,054	3,242,742	4,489,796
For the period ended 30 June 2017			
Geographical markets			
Malaysia	310,988	1,305,630	1,616,618
Indonesia	65,788	1,068,765	1,134,553
China (including Hong Kong)	94,415	203,098	297,513
Southeast Asia	165,671	206,643	372,314
Others	77,121	192,686	269,807
Total revenue from contracts with customers	713,983	2,976,822	3,690,805

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Operating segments

For management purposes, the Group is organised into business units based on its products and has 2 reportable segments, as follows:

(i) Olefins and derivative products - Manufacture and sale of olefins and derivative products

(ii) Polyolefin products - Manufacture and sale of polyolefin products

The following table provides an analysis of the Group's revenue and results by business segment:

	Olefins and derivative products RM'000	Polyolefin products RM'000	Eliminations and unallocated results RM'000	Total RM'000
For the period ended 30 June 2018				
Revenue				
External customers	1,247,054	3,242,742	-	4,489,796
Inter-segment	1,845,274	-	(1,845,274)	-
Total revenue	3,092,328	3,242,742	(1,845,274)	4,489,796
Expenses				
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	157,251	79,530	1,297	238,078
Write down / (Reversal of) write-down of inventories to net realisable value	883	(482)	-	401
Segment results	173,684	392,956	92,012	658,652

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Operating segments (cont'd)

	Olefins and derivative products RM'000	Polyolefin products RM'000	Eliminations and unallocated results RM'000	Total RM'000
For the period ended 30 June 2017				
Revenue				
External customers	713,983	2,976,822	-	3,690,805
Inter-segment	1,151,430	-	(1,151,430)	-
Total revenue	1,865,413	2,976,822	(1,151,430)	3,690,805
Expenses/(income)				
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	117,307	95,905	1,204	214,416
Property, plant and equipment written off	11,666	8,603	-	20,269
Write-down of inventories to net realisable value	10,218	625	-	10,843
Segment results	86,502	428,142	(879)	513,765

Adjustments and eliminations

Finance income are allocated to individual segments other than finance income derived from the Company's proceeds from its initial public offering amounting to approximately RM43 million for the financial period ended 30 June 2018 which are managed on a group basis.

Foreign exchange gain/loss are allocated to individual segments other than foreign exchange gain/loss arising from the conversion of the unutilised proceeds of the Company's initial public offering to USD amounting to approximately RM35.9 million for the financial period ended 30 June 2018 which are managed on a group basis.

Fair value changes in derivatives are not allocated to individual segments as the underlying instruments are also managed on a group basis.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A9. Operating segments (cont'd)

Reconciliation of profit

	Cumulative Quarter ended 30.6.2018 RM'000	Cumulative Quarter ended 30.6.2017 RM'000
Segment profit of:		
- Olefins and derivative products	173,684	86,502
- Polyolefin products	392,956	428,142
Total segment profit	566,640	514,644
Fair value changes in derivatives	(1,123)	16,920
Inter-segment sales (elimination)	(639)	6,819
Share of results of associates	20,968	(18,506)
Finance income derived from IPO proceeds	43,303	-
Foreign exchange gain arise as a result of converting a portion of IPO proceed to USD	35,921	-
Other unallocated cost	(6,418)	(6,112)
Profit before tax	658,652	513,765

A10. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the period under review. As at 30 June 2018, all property, plant and equipment were stated at cost less accumulated depreciation.

A11. Material subsequent event

There were no material events subsequent to the end of the current period.

A12. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2017.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A13. Changes in composition of the Group

There was no material change in the composition of the Group during the period.

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 30.6.2018 RM'000	As at 31.12.2017 RM'000
Contracted but not provided for	144,347	185,643
Approved but not contracted for	406,357	116,945

A15. Fair value information

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximations of fair values.

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximations of fair values:

(i) Trade and other receivables
(ii) Trade and other payables

The carrying amounts of these financial assets and liabilities are reasonable approximations of fair values due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

Derivatives

The fair value of the total return equity swap is calculated by reference to the quoted share price of the underlying asset.

Fair values of forward currency contracts are calculated by reference to forward rates quoted at the reporting date for contracts with similar maturity profiles.

Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A15. Fair value information (cont'd)

Financial guarantees

The Company provides a financial guarantee to a bank for credit facilities granted to an associate. The fair value of the guarantee is not expected to be material due to the following reasons:

- The likelihood is remote that the guaranteed party will default within the guaranteed period; and
- The estimated loss exposure to the Company arising from the outstanding credit facility that is not recovered if the guaranteed party were to default is not expected to be significant as the guaranteed party has net assets in excess of the outstanding amount of credit facilities.

Fair value hierarchy

The following table is the fair value measurement hierarchy of the Group's assets and liabilities.

	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
At 30 June 2018				
Financial assets				
Derivatives				
- Total return equity swap	6,069	-	6,069	-
- Forward currency contracts	141	-	141	-
	6,210	-	6,210	-
Financial liabilities				
Derivatives				
- Forward currency contracts	80	-	80	-

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A15. Fair value information (cont'd)

	Total RM'000	Quoted prices in active markets (Level 1) RM'000	Significant observable inputs (Level 2) RM'000	Significant unobservable inputs (Level 3) RM'000
At 31 December 2017				
Financial assets				
Derivatives				
- Total return equity swap	9,225	-	9,225	-
- Forward currency contracts	6	-	6	-
	9,231	-	9,231	-
Financial liabilities				
Derivatives				
- Forward currency contracts	507	-	507	-

A16. Related parties

For the purposes of these interim financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

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Part A - Explanatory notes pursuant to MFRS 134 (cont'd)

A16. Related parties (cont'd)

The significant related party transactions of the Group are as follows:

	Cumulative Quarter ended 30.6.2018 RM'000	Cumulative Quarter ended 30.6.2017 RM'000
Ultimate holding company		
Sales of goods	24,275	27,014
Catalyst trial fee received/receivable	2,233	3,752
Management and consulting fees incurred	6,940	7,560
Purchase of materials	1,170	426
Commission expense	446	241
Royalty expense	162	170
Commission income	149	217
Capital expenditure incurred	2,060	5,985
IT support services fee paid/payable	277	94
Expenses paid on behalf	379	-
Related companies		
Sales of goods	27,368	26,918
Capital expenditure incurred	190,379	329,630
IT support services fee paid/payable	1,185	921
Commission expense	942	929
Warehouse and logistics services incurred	223	491
Advertising expenses	183	193
Other admin expenses	22	80
Associate company		
Sales of goods	112,059	122,340
Sales of utilities	6,440	5,430
Income from shared services	97	258
Financial guarantee income	21	30
Lease rental income	1,260	1,072

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Part B - Other explanatory notes

B1. Review of group performance

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

	Individual quarter ended 30 June					
	2018	2017	2018	2017	2018	2017
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2,275,537	1,776,280	669,403	281,521	1,606,134	1,494,759
Profit before tax	358,825	127,398	74,799	7,554	187,406	165,167
EBITDA*	454,207	259,009	152,684	75,824	226,065	217,883

* EBITDA refers to earnings before interest, taxation, depreciation and amortisation and is computed based on profit from operations plus depreciation of property, plant and equipment and amortisation of prepaid lease payments.

Group revenue increased by 28.1% (or RM499.2 million) from RM1,776.3 million to RM2,275.5 million contributed by the increase in sales volume which was driven by improvement in production quantity as compared to Q2 2017.

Average plant utilisation improved from 71% to 82% in Q2 2018. The plants were operating at a sufficient level to maintain profit maximization taking into consideration the need for plant general maintenance and continue to load down on Indonesia polyethylene plant.

Profit before tax increased by RM231.4 million and this was partly attributed to higher sales volume and lower production cost resulting from improvement in plant operational efficiency and other factors explained below.

Other factors affecting the profit before tax for the current quarter includes increase of foreign exchange gain by RM 39.9 million as compared to Q2 2017, insurance proceed receivable of RM31.2mil for gas turbine claim, reduction of loss on fair value changes in Total Return Equity Swap ("TRES") by RM20.0 million compared to Q2 2017, no property, plant and equipment written off as compared to RM 20.1 million in Q2 2017 and increased in non-operating income.

Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(a) Performance of the current quarter against the corresponding quarter (cont'd)

Foreign exchange gain of RM52.2 million in Q2 2018 includes foreign exchange gain of RM80.4 million arising from revaluation of the Group's US Dollars ("USD") IPO funds against the Ringgit Malaysia ("RM") held for Indonesia project capital injection as a result of the weakening of the RM against USD in Q2 2018. This foreign exchange gain was partially offset by foreign exchange loss of RM28.2 million from operation in Q2 2018.

Increase in non-operating income includes RM20.9 million interest income from IPO proceeds and an increase of RM17.8 million from share of result from associates. Improvement of result from associates is mainly due to gain on fair value changes in interest rate swap entered by Lotte Chemical USA Corporation.

Profit after tax increased by RM202.0 million from RM113.7 million to RM315.7 million in tandem with the increase in the Group's profit before tax and partially offset by increase in Group's effective tax rate ("ETR") from 10.72% in Q2 2017 to 12.03% in Q2 2018. The higher ETR in Q2 2018 was attributed by lower reinvestment allowance claimable in 2018.

Olefins and derivative products

The segment recorded an increase in revenue of RM387.9 million from RM281.5 million in Q2 2017 to RM669.4 million in Q2 2018. This was primarily due to an increase in sales volume in Q2 2018 as compared to the corresponding quarter as a result of stable production operation.

Profit before tax increased by RM67.2 million from RM7.6 million in Q2 2017 to RM74.8 million in Q2 2018 mainly due to increase in sales volume.

Polyolefin products

The segment recorded a increase in revenue of RM111.3 million from RM1,494.8 million in Q2 2017 to RM1,606.1 million in Q2 2018. This was attributed to the increase in the segment's sales volume compared to corresponding quarter as a result of stable production operation.

Profit before tax increased by RM22.2 million from RM165.2 million in Q2 2017 to RM187.4 million in Q2 2018 mainly due to increase in sales volume.

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Part B - Other explanatory notes

B1. Review of group performance (cont'd)

(b) Performance of the current period against the corresponding period

	Cumulative quarter ended 30 June					
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	Group		**Olefins and derivative products**		**Polyolefin products**	
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	4,489,796	3,690,805	1,247,054	713,983	3,242,742	2,976,822
Profit before tax	658,652	513,765	173,684	86,502	392,956	428,142
EBITDA*	833,406	749,723	330,315	203,482	473,167	529,929

* EBITDA refers to earnings before interest, taxation, depreciation and amortisation and is computed based on profit from operations plus depreciation of property, plant and equipment and amortisation of prepaid lease payments.

Group revenue increased by 21.6% (or RM799.0 million) from RM3,690.8 million to RM4,489.8 million contributed by the increase in sales volume as compared to 1H 2017 as a result of stable plant operation and higher plant utilisation rate.

Average plant utilisation was 82% compared to 65% in corresponding period. The plants were operating at a sufficient level to maintain profit maximization taking into consideration the need for plant general maintenance and continue to load down on Indonesia polyethylene plant. Lower operating rate in 1H 2017 was mainly due to statutory routine turnaround and water interruption incident at the Malaysia complex.

Profit before tax increased by RM144.9 million and this was partly contributed by higher sales volume which was offsetted by lower polyolefin products margin spread and other factors explained below.

Other factors affecting the profit before tax for the current period includes increase of foreign exchange gain of RM 26.1 million as compare to 1H 2017, insurance proceed receivable of RM31.2 million for gas turbine claim, reversal of TRES from fair value gain to loss amounting to RM18.0 million, no property, plant and equipment written off as compared to RM 20.3 million in 1H 2017 and non-operating income explained below.

Part B - Other explanatory notes (cont'd)

B1. Review of group performance (cont'd)

(b) Performance of the current period against the corresponding period

Foreign exchange gain increased mainly due to unrealised foreign exchange gain arising from the revaluation of the Group's US Dollars ("USD") IPO funds against the Ringgit Malaysia ("RM") held for Indonesia project capital injection as a result of the weakening of RM against USD in 1H 2018.

Increase in non-operating income includes RM43.3 million interest income from IPO proceeds and increase of RM39.5 million from share of result of associates. Higher profit from associates arise mainly from gain on fair value changes in interest rate swap entered by Lotte Chemical USA Corporation.

Profit after tax increased by RM103.3 million from RM456.6 million to RM559.9 million in tandem with increase in the Group's profit before tax and partially offset by increase in Group's ETR from 11.13% in 1H 2017 to 14.99% in 1H 2018. The higher ETR in 2H 2018 was attributed to lower reinvestment allowance claimable in 2018.

Olefins and derivative products

The segment recorded an increase in revenue of RM533.1 million from RM714.0 million in 1H 2017 to RM1,247.1 million in 1H 2018. This was mainly contributed by the increase in sales volume as compared to the corresponding period as a result of stable production operation.

Profit before tax increased by RM87.2 million from RM86.5 million in 1H 2017 to RM173.7 million in 1H 2018 due to increase in sales volume.

Polyolefin products

The segment recorded a increase in revenue of RM265.9 million from RM2,976.8 million in 2017 to RM3,242.7 million in 2018. This was attributed to the increase in the segment's sales volume compared to corresponding period as a result of stable production operation.

Profit before tax decreased by RM35.1 million from RM428.1 million in 1H 2017 to RM393.0 million in 1H 2018 mainly due to marginal decrease in polyolefin product margin spread compared to 1H 2017 and partially offsetted by increase in sales volume.

Part B - Other explanatory notes (cont'd)

B2. Variation of results against the preceding quarter

	Individual quarter ended 30 June 2018 RM'000	Individual quarter ended 31 March 2018 RM'000
Revenue	2,275,537	2,214,259
Profit before tax	358,825	299,827
EBITDA	454,207	379,199

Group revenue rose by RM61.2 million or 2.8% from RM 2,214.3 million to RM2,275.5 million primarily contributed by the increase in sales volume in Q2 2018 compared to the preceding quarter.

The average group utilisation rate was at 82% compared to 83% in preceding quarter. The plants were operating at a sufficient level to maintain profit maximization taking into consideration the need for plant general maintenance and continued to load down on Indonesia polyethylene plant.

Profit before tax increased by RM59.0 million or 19.7% from RM299.8 million to RM358.8 million mainly due to reversal of foreign exchange loss to gain amounting to RM 61.9 million and insurance proceed receivable of RM31.2mil for gas turbine claim in Q2 2018. Partially offsetting the increase in profit before tax was higher cost of production in Q2 2018 and decrease in share of fair value gain arising from interest rate swap entered by Lotte Chemical USA Corp (associate) amounting to RM10.9 million.

The reversal of foreign exchange difference is mainly due to a change in trend from a weaker USD in Q1 2018 to a stronger USD against the RM in Q2 2018.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2018 are expected to be primarily influenced by the following factors:

(a) The demand and supply balance of petrochemical products in the market;
(b) Our ability to maximise production outputs and operational efficiency; and
(c) Feedstock prices which is correlated to crude oil prices.
Historically, Polyolefin prices will move in tandem with feedstock prices on a lagging basis.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

Oil price is expected to be volatile and will have an impact on the price of naphtha, which is our main feedstock. In addition, there is uncertainty in the petrochemical business dynamics and regional market due to the ongoing trade war between US and China.

Looking forward, the Board would like to revise the full year 2018 operating rate to about 85% due to profit optimization and general plant maintenance.

Barring any unforeseen circumstances, our Board expects our performance for the financial year ending 31 December 2018 to remain positive.

B4. Profit forecast or profit guarantee

Not applicable as there was no profit forecast or profit guarantee issued.

B5. Profit before tax

Profit before tax is arrived at after charging/(crediting):

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Depreciation of property, plant and equipment	117,782	112,472	236,679	213,015
Loss/(gain) on foreign exchange:				
- Realised	15,801	(7,459)	27,952	(6,347)
- Unrealised	(67,959)	(4,817)	(70,458)	(10,104)
Amortisation of prepaid lease payments	708	696	1,399	1,401
Inventories written off	106	222	107	296
Property, plant and equipment written off	-	20,135	-	20,269
Loss/(gain) on disposal of property, plant and equipment	-	-	187	(12)
Loss/(gain) on partial settlement of derivative financial instruments	206	(656)	220	(1,540)
Reversal of impairment loss on other receivables	-	(8)	(1)	(18)
Write-down of inventories to net realisable value	883	10,179	401	10,843
Fair value changes in derivatives	1,687	21,933	1,123	(16,920)

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Part B - Other explanatory notes (cont'd)

B6. Finance costs

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Interest expense on:				
- Term loan	-	229	-	649
- Short term borrowings	-	126	-	433
	-	355	-	1,082
Bank charges	910	469	1,397	995
Letter of credit charges	258	279	609	640
Unwinding of discount on provision	2,763	2,500	5,572	5,042
Other finance costs	65	66	129	126
	3,996	3,669	7,707	7,885

B7. Income tax

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2018	2017	2018	2017
	RM'000	RM'000	RM'000	RM'000
Current tax expense				
Current year	9,831	7,502	18,053	16,537
Deferred tax expenses				
Origination and reversal of temporary differences	33,342	6,158	77,993	34,863
Underprovision in prior year	-	-	2,685	5,763
	33,342	6,158	80,678	40,626
Total income tax recognised in profit or loss	43,173	13,660	98,731	57,163

The Group's effective tax rate of 14.99% for the period ended 30 June 2018 is lower than the statutory tax rate of 24%. This was primarily due to the utilisation of estimated reinvestment allowances claimed in respect of capital expenditures incurred on a qualifying project and tax exempt income from a subsidiary that was granted Principal Hub Incentive.

Part B - Other explanatory notes (cont'd)

B8. Sales of unquoted investments/properties

There were no material disposals of unquoted investments or properties by the Group for the period under review.

B9. Quoted securities

There were no material dealings in quoted securities during the period under review.

B10. Status of corporate proposals

Based on the IPO price of RM6.50 per share, gross proceeds of RM3,770 million was raised from the Public Issue on 11 July 2017 in the Main Market of Bursa Malaysia Securities Berhad. RM 226.3 million of the proceeds were utilised for purchase of treasury shares. The status of utilisation of the remaining IPO proceeds are as follow:

Details of use of proceeds	Estimated timeframe for use from the date of Listing	Amount RM'000	Actual utilisation as at 30 June 2018 RM'000	Percentage utilised %
Funding of following projects:				
(i) Integrated Petrochemical Facility	Within 36 months	2,588,044	46,636	2%
(ii) TE3 Project	Within 12 months	220,000	220,000	100%
(iii) PP3 Project (Note 1)	Within 12 months	620,000	510,000	82%
Estimated listing expenses (Note 2)	Within 6 months	115,704	82,730	72%
		3,543,748	859,366	24%

Note 1: The PP3 project fund utilisation of RM510,000,000 excludes RM31,230,000 funded from our internally generated funds which will be reimbursed subsequently from the IPO proceeds. The percentage utilised would then increase to 87%.

Note 2: The excess fund of RM32,974,000 from listing expenses would be invested in the Integrated Petrochemical Facility.

Part B - Other explanatory notes (cont'd)

B10. Status of corporate proposals (cont'd)

The utilisation of the proceeds as disclosed above should be read in conjunction with the prospectus of the Company dated 16 June 2017 ("Prospectus"). In accordance to the Prospectus, the balance of the unutilised funds are kept as deposits, short-term money-market instruments or money-market unit trust funds in Malaysia.

The Company has placed the unutilised IPO proceeds with licensed bank and financial institution in Malaysia and has met the Shariah compliance ratio requirement.

The status and progress of each of the projects as at the reporting date are as follows:

(i) Integrated Petrochemical Facility
Currently conducting the Front End Engineering Design (FEED) study for the project to determine, among others, the conceptual design and a more detailed breakdown of the costs to be incurred and procurement of approvals and licences. The project is expected to be completed on schedule.

(ii) TE3 Project
The project has started commercial operation since 16th December 2017.

(iii) PP3 Project
We expect the project to commence commercial operation in Q3 2018.

Please refer to Section 4.7.1 of the Prospectus for further details of the projects.

B11. Derivative financial instruments

The Group's derivative financial instruments are as disclosed in Note A15.

B12. Fair value changes of financial liabilities

Other than derivatives which are measured at fair value and are classified as liabilities only when they are at a loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after initial recognition.

Part B - Other explanatory notes (cont'd)

B13. Cash and bank balances

	As at 30 June 2018 RM'000	As at 31 December 2017 RM'000
Unutilised proceeds from initial public offering		
Cash at banks	32	15
Short term deposits with licensed financial institutions	1,921,140	1,715,482
Fund placements with licensed financial institutions	872,238	1,251,298
	2,793,410	2,966,795
Others		
Cash at banks and on hand	558,211	658,679
	3,351,621	3,625,474

For the purpose of the statements of cash flows, cash and cash equivalents comprise the following at the reporting date:

	As at 30 June 2018 RM'000	As at 31 December 2017 RM'000
Cash at banks and on hand	558,243	658,694
Short term deposits with licensed financial institutions	1,921,140	1,715,482
Cash and cash equivalents	2,479,383	2,374,176

B14. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 30 June 2018.

B15. Material litigation

There was no material litigation taken or threatened against the Company and its subsidiaries as at the reporting date.

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Part B - Other explanatory notes (cont'd)

B16. Dividends

Other than disclosed in Note A7, no dividend has been paid or declared by the company for the period ended 30 June 2017 and 30 June 2018

B17. Earnings per share ("EPS")

Basic and diluted EPS are calculated by dividing net profit for the period attributable to the owner of the Company by the weighted average number of ordinary shares outstanding during the period. The Company did not issue any instruments that will give effect to dilutive potential ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	Individual quarter ended 30 June		Cumulative quarter ended 30 June	
	2018	2017	2018	2017
Net profit attributable to the owner of the Company (RM'000)	315,025	113,616	559,222	455,770
Weighted average number of ordinary shares at the end of the period ('000)	2,272,984	1,727,792	2,272,984	1,727,792
Basic and diluted EPS (sen)	13.86	6.58	24.60	26.38

B18. Audit report of preceding annual financial statements

The auditors have expressed an unqualified opinion on the audited consolidated financial statements of the Group and the Company for the financial year ended 31 December 2017.