LOTTE CHEMICAL TITAN HOLDING BERHAD
(222357-P)

Unaudited condensed consolidated interim financial statements

For first quarter ended 31 March 2019

222357-P

Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

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Lotte Chemical Titan Holding Berhad
(Incorporated in Malaysia)

Unaudited condensed consolidated interim financial statements
For the quarter ended 31 March 2019

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 ended 31 March 2019, which should be read in conjunction with the accompanying explanatory notes on page 8 to 32.

Unaudited condensed consolidated statement of comprehensive income

	Note	Quarter ended 31.03.2019 RM'000	Quarter ended 31.03.2018 RM'000	Changes RM'000	%
Revenue	A8	2,170,003	2,214,259	(44,256)	-2%
Cost of goods sold		(2,013,005)	(1,907,128)	(105,877)	6%
Gross profit		156,998	307,131	(150,133)	-49%
Other income		5,149	5,069	80	2%
Distribution expenses		(33,560)	(16,678)	(16,882)	101%
Administrative expenses		(26,724)	(23,368)	(3,356)	14%
Foreign exchange differences		(18,713)	(9,652)	(9,061)	94%
Fair value changes on derivatives		852	564	288	51%
Other expenses		(3,347)	(3,455)	108	-3%
Profit from operations		80,655	259,611	(178,956)	-69%
Finance income		25,744	24,811	933	4%
Finance costs	B6	(3,840)	(3,711)	(129)	3%
Net finance income		21,904	21,100	804	4%
Share of results of associates		(13,429)	19,116	(32,545)	-170%
Profit before tax	B5	89,130	299,827	(210,697)	-70%
Income tax	B7	(33,268)	(55,558)	22,290	-40%
Net profit for the period		55,862	244,269	(188,407)	-77%

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Unaudited condensed consolidated statement of comprehensive income (cont'd)

	Note	Quarter ended 31.03.2019 RM'000	Quarter ended 31.03.2018 RM'000
Other comprehensive loss, net of tax			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(142,593)	(424,738)
		(142,593)	(424,738)
Total comprehensive loss for the period		(86,731)	(180,469)
Net profit for the period attributable to:			
Owner of the Company		55,831	244,197
Non-controlling interests		31	72
		55,862	244,269
Total comprehensive loss for the period attributable to:			
Owner of the Company		(85,543)	(179,106)
Non-controlling interests		(1,188)	(1,363)
		(86,731)	(180,469)
Basic and diluted earnings per ordinary share (sen)	B18	2.46	10.74

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 31.03.2019 RM'000	As at 31.12.2018 RM'000
Assets			
Non-current assets			
Property, plant and equipment		4,853,816	5,360,287
Prepaid lease payments		-	62,467
Right-of-use assets		559,342	-
Prepayment for acquisition of land		19,484	19,789
Investments in associates		2,055,425	2,101,300
Deferred tax assets		-	33
		7,488,067	7,543,876
Current assets			
Inventories		1,315,287	1,507,657
Trade and other receivables		968,632	1,007,726
Tax recoverable		25,622	25,332
Prepayments		21,277	24,348
Derivative financial instruments		65	-
Other investment	B13	1,282,690	1,149,813
Cash and bank balances	B14	2,253,794	2,262,300
		5,867,367	5,977,176
Total assets		13,355,434	13,521,052
Equity and liabilities			
Capital and reserves			
Share capital		5,816,813	5,816,813
Other reserves		1,130,265	1,271,639
Retained earnings		5,174,580	5,118,749
Treasury shares, at cost		(226,252)	(226,252)
Total equity attributable to owner of the Company		11,895,406	11,980,949
Non-controlling interests		21,797	22,985
		11,917,203	12,003,934

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

	Note	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Non-current liabilities			
Provision		279,451	263,743
Deferred tax liabilities		413,533	396,557
Defined benefit obligation		18,012	17,236
Lease liabilities		47,843	-
		758,839	677,536
Current liabilities			
Trade and other payables		656,764	838,664
Provision for taxation		2,544	-
Other financial liabilities		89	91
Lease liabilities		19,956	-
Derivative financial instruments		39	827
		679,392	839,582
Total liabilities		1,438,231	1,517,118
Total equity and liabilities		13,355,434	13,521,052
Net assets per share attributable to ordinary equity holders of the parent (RM)		5.23	5.27

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			
	Share capital RM'000	Treasury Shares 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 2018	5,816,813	(226,252)	1,086,768	4,856,084	11,533,413	24,970	11,558,383
Net profit for the period	-	-	-	244,197	244,197	72	244,269
Other comprehensive loss	-	-	(423,303)	-	(423,303)	(1,435)	(424,738)
Total comprehensive loss for the period	-	-	(423,303)	244,197	(179,106)	(1,363)	(180,469)
At 31 March 2018	5,816,813	(226,252)	663,465	5,100,281	11,354,307	23,607	11,377,914
At 1 January 2019	5,816,813	(226,252)	1,271,639	5,118,749	11,980,949	22,985	12,003,934
Net profit for the period	-	-	-	55,831	55,831	31	55,862
Other comprehensive loss	-	-	(141,374)	-	(141,374)	(1,219)	(142,593)
Total comprehensive loss for the period	-	-	(141,374)	55,831	(85,543)	(1,188)	(86,731)
At 31 March 2019	5,816,813	(226,252)	1,130,265	5,174,580	11,895,406	21,797	11,917,203

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 statement of cash flows

	Quarter ended 31.03.2019 RM'000	Quarter ended 31.03.2018 RM'000
Cash flows from operating activities		
Profit before tax	89,130	299,827
Adjustments for:-		
Depreciation of property, plant and equipment and right-of-use assets	156,278	118,897
Amortisation of prepaid land lease payments	-	691
Finance costs	3,840	3,711
Property, plant and equipment written off	365	-
Reversal of write down of inventories to net realisable value	(37,812)	(482)
Expenses recognised in respect of defined benefit plan	885	1,257
Inventories written off	3	1
Impairment loss on trade receivables	596	-
Share of results of associates	13,429	(19,116)
Loss on disposal of property, plant and equipment	-	187
Finance income	(25,744)	(24,811)
Fair value changes in derivatives	(852)	(564)
Loss on partial settlement of derivative financial instruments	-	14
Unrealised loss/(gain) on foreign exchange	15,507	(2,499)
Others	-	(2)
Operating profit before working capital changes	215,625	377,111
Change in inventories	182,778	(194,643)
Change in trade and other receivables	23,184	(90,363)
Change in trade and other payables	(154,665)	139,068
Cash generated from operations	266,922	231,173
Payments under defined benefit plan	(111)	(532)
Finance costs paid	(914)	(902)
Income tax paid	(6,085)	(7,018)
Net cash generated from operating activities	259,812	222,721

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

	Quarter ended 31.03.2019 RM'000	Quarter ended 31.03.2018 RM'000
Cash flows from investing activities		
Finance income received	25,744	24,811
Proceeds from disposal of property, plant and equipment	-	175
Acquisition of property, plant and equipment	(133,254)	(118,405)
Prepaid lease payments	-	(5,751)
(Placement)/Withdrawal of fund placements with licensed financial institutions	(132,877)	415,413
Proceeds from disposal of financial instruments	-	308
Net cash (used in)/generated from investing activities	(240,387)	316,551
Cash flows from financing activities		
Share issuance costs and listing expenses paid	-	(179)
Payment of lease liabilities	(3,415)	-
Net cash used in financing activities	(3,415)	(179)
Net increase in cash and cash equivalents	16,010	539,093
Effect of exchange rate changes on the balance of cash held in foreign currencies	(24,516)	(184,306)
Cash and cash equivalents at beginning of year	2,262,300	2,374,176
Cash and cash equivalents at end of year (Note B14)	2,253,794	2,728,963

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 2018 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 29 April 2019.

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 2018, except for the adoption of the following amendments to MFRSs during the financial year:

Amendments to MFRS 9	Prepayment Features with Negative Compensation
MFRS 16	Leases
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
IC Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 101 and 108	Definition of Material
MFRS 17	Insurance Contracts
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to references to the Conceptual Framework in MFRS Standards	
Annual Improvements to MFRS Standards 2015–2017 Cycle	

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

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

A2. Significant accounting policies (cont'd)

MFRS 16 Leases

MFRS 16 supersedes MFRS 117 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under MFRS 16 is substantially unchanged from MFRS 117. Lessors will continue to classify leases as either operating or finance leases using similar principles as in MFRS 117. Therefore, MFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying MFRS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’). The Group also elected to recognise a right-of-use asset at the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The effect of adoption MFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	RM'000
Assets	
Right-of-use assets	575,273
Property, plant and equipment	(441,309)
Prepaid land lease	(62,467)
Prepayment	(1,189)
Total assets	70,308
Liabilities	
Lease liabilities, representing total liabilities	70,308

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

A2. Significant accounting policies (cont'd)

MFRS 16 Leases (cont'd)

(a) Nature of the effect of adoption of MFRS 16

The Group has lease contracts for various items of land and building, vehicles and others. Before the adoption of MFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments, Prepaid lease payments and Trade and other payables,

Upon adoption of MFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

<u>Leases previously classified as finance leases</u>

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under MFRS 117). The requirements of MFRS 16 was applied to these leases from 1 January 2019.

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

A2. Significant accounting policies (cont'd)

MFRS 16 Leases (cont'd)

(a) Nature of the effect of adoption of MFRS 16 (con'd)

<u>Leases previously classified as operating leases</u>

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics

- Relied on its assessment of whether leases are onerous immediately before the date of initial application

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease

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

A2. Significant accounting policies (cont'd)

MFRS 16 Leases (cont'd)

(a) Nature of the effect of adoption of MFRS 16 (con'd)

Leases previously classified as operating leases (cont'd)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	RM'000
Operating lease commitments as at 31 December 2018	92,000
Less:	
Commitments relating to short-term leases	(9,611)
Commitments relating to low-value assets	(278)
	82,111
Weighted average incremental borrowing rate as at 1 January 2019	5.39%
Lease liabilities as at 1 January 2019	70,308

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of MFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

A2. Significant accounting policies (cont'd)

MFRS 16 Leases (cont'd)

(b) Summary of new accounting policies (cont'd)

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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

A2. Significant accounting policies (cont'd)

MFRS 16 Leases (cont'd)

(b) Summary of new accounting policies (cont'd)

Significant judgment in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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

A2. Significant accounting policies (cont'd)

MFRS 16 Leases (cont'd)

(c) Amounts recognised in the statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

	Land and buildings RM'000	Vehicles RM'000	Others RM'000	Total RM'000	Lease Liabilities RM'000
As at 1 January 2019	514,831	11,627	48,815	575,273	70,308
Additions	376	-	-	376	-
Depreciation expense	(4,652)	(1,204)	(1,637)	(7,493)	-
Interest expense	-	-	-	-	922
Unrealised foreign exchange	-	-	-	-	1,060
Foreign currency translation reserve	(7,910)	(167)	(737)	(8,814)	(1,076)
Payments	-	-	-	-	(3,415)
As at 31 March 2019	502,645	10,256	46,441	559,342	67,799

The Group recognised rent expense from short-term leases and low-value assets of RM2,451,000 for the three months ended 31 March 2019.

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

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.

A4. Exceptional items

There was no exceptional item during the year 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 Q1 2019, based on an analysis performed by the management, the Group has revised the discount rate from 3.05% to 2.82%. This change has resulted in an increase by approximately RM17,796,000 in the provision for dismantling cost.

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

A6. Debt and equity securities

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

A7. Dividend paid

No dividend was paid during the quarter under review.

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 financial period ended 31 March 2019			
Geographical markets			
Malaysia	136,970	675,639	812,609
Indonesia	35,971	528,439	564,410
China (including Hong Kong)	123,896	228,744	352,640
Southeast Asia	79,232	175,504	254,736
Northeast Asia	40,910	45,881	86,791
Indian Sub-Continent	18,559	58,091	76,650
Others	-	22,167	22,167
Total revenue from contracts with customers	435,538	1,734,465	2,170,003
For the financial period ended 31 March 2018			
Geographical markets			
Malaysia	142,596	704,670	847,266
Indonesia	51,224	550,756	601,980
China (including Hong Kong)	227,548	123,714	351,262
Southeast Asia	46,193	143,283	189,476
Northeast Asia	63,742	38,632	102,374
Indian Sub-Continent	46,348	49,055	95,403
Others	-	26,498	26,498
Total revenue from contracts with customers	577,651	1,636,608	2,214,259

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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 financial period ended 31 March 2019				
Revenue				
External customers	435,538	1,734,465	-	2,170,003
Inter-segment	1,010,464	-	(1,010,464)	-
Total revenue	1,446,002	1,734,465	(1,010,464)	2,170,003
Expenses				
Depreciation of property, plant and equipment and right-of-use assets	99,963	54,518	1,797	156,278
Property, plant and equipment written off	-	365	-	365
Write-down of inventories to net realisable value	(26,015)	(11,797)	-	(37,812)
Segment results	16,129	97,247	(24,246)	89,130

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 financial period ended 31 March 2018				
Revenue				
External customers	577,651	1,636,608	-	2,214,259
Inter-segment	947,697	-	(947,697)	-
Total revenue	1,525,348	1,636,608	(947,697)	2,214,259
Expenses				
Depreciation of property, plant and equipment and amortisation of prepaid lease payments	79,492	40,096	-	119,588
Write-down of inventories to net realisable value	-	(482)	-	(482)
Segment results	98,885	205,550	(4,608)	299,827

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 RM22.0 million for the quarter ended 31 March 2019 which are managed on a group basis.

Foreign exchange gain/loss are allocated to individual segments other than foreign exchange loss arising from the conversion of the unutilised proceeds of the Company's initial public offering to USD amounting to approximately RM27.5 million for the quarter ended 31 March 2019 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.

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

A9. Operating segments (cont'd)

Reconciliation of profit

	Quarter ended 31.03.2019 RM'000	Quarter ended 31.03.2018 RM'000
Segment profit of:		
- Olefins and derivative products	16,129	98,885
- Polyolefin products	97,247	205,550
Total segment profit	113,376	304,435
Fair value changes in derivatives	852	564
Inter-segment sales (elimination)	(726)	-
Share of results of associates	(13,429)	19,116
Finance income derived from IPO proceeds	21,951	22,377
Foreign exchange loss arise as a result of converting a portion of IPO proceed to USD	(27,468)	(44,551)
Other unallocated cost	(5,426)	(2,114)
Profit before tax	89,130	299,827

A10. Valuation of property, plant and equipment

There were no revaluations of property, plant and equipment for the quarter under review. As at 31 March 2019, 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 quarter.

A12. Contingencies

There were no material contingent liabilities or contingent assets since the last consolidated statement of financial position as at 31 December 2018.

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

A13. Changes in composition of the Group

There were no material changes in the composition of the Group during the period.

A14. Capital commitments

Capital expenditure as at the reporting date is as follows:

	As at 31.03.2019 RM'000	As at 31.12.2018 RM'000
Contracted but not provided for	626,194	185,464
Approved but not contracted for	355,006	195,581

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

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

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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

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 31 March 2019				
Financial assets				
Fund placements with licensed financial institutions	1,282,690	-	1,282,690	-
Derivatives				
- Forward currency contracts	65	-	65	-
	1,282,755	-	1,282,755	-
Financial liabilities				
Derivatives				
- Forward currency contracts	(39)	-	(39)	-
At 31 December 2018				
Financial assets				
Fund placements with licensed financial institutions	1,149,813	-	1,149,813	-
Financial liabilities				
Derivatives				
- Forward currency contracts	(827)	-	(827)	-

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

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.

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

	Quarter ended 31.03.2019 RM'000	Quarter ended 31.03.2018 RM'000
Ultimate holding company		
Sales of goods	14,660	11,145
Catalyst trial fee received/receivable	-	2,295
Management and consulting fees incurred	4,526	4,965
Purchase of materials	6,158	-
Commission expense	413	225
Royalty expense	9,443	82
Commission income	46	60
Capital expenditure incurred	3,931	925
IT support services fee paid/payable	763	16
Related companies		
Sales of goods	28,359	12,201
Capital expenditure incurred	2,426	162,228
IT support services fee paid/payable	690	602
Commission expense	1,126	540
Warehouse and logistics services incurred	603	104
Other administrative expenses	20	41
Associate company		
Sales of goods	54,961	61,969
Sales of utilities	3,099	3,179
Income from shared services	63	53
Lease rental income	658	630

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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 31 March					
	2019	2018	2019	2018	2019	2018
	Group		Olefins and derivative products		Polyolefin products	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	2,170,003	2,214,259	435,538	577,651	1,734,465	1,636,608
Profit before tax	89,130	299,827	16,129	98,885	97,247	205,550
EBITDA*	236,933	379,199	115,774	177,631	152,355	247,102

* 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 right-of-use assets and amortisation of prepaid lease payments.

Group revenue slightly decreased by 2.0% (or RM 44.3 million) from RM 2,214.3 million to RM 2,170.0 million due to decrease in average product selling price. It was partially offset by the increased in sales volume which was driven by improvement in production quantity as compared to Q1 2018.

Overall production quantity increased due to commissioning of new plants while average plant utilisation rate improved from 83% to 87% in Q1 2019. The plants were operating at a sufficient level to maintain profit maximization taking into consideration the need for general plant maintenance.

The main reason of decrease in the profit before tax from RM 299.8 million in Q1 2018 to RM 89.1 million in Q1 2019 is due to margin squeeze resulting from fall in product selling prices. Product market prices were lower as a result of diversion of polyolefin supply from USA into SEA region as a consequence of the US-China trade war.

Other factors contributing to the lower profit before tax includes royalty expenses to holding company of RM 9.3 million, foreign exchange loss of RM 18.7 million, share of loss from associates of RM 13.4 million which is mainly due to loss on fair value changes in interest rate swap entered by Lotte Chemical USA Corporation.

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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)

Profit after tax decreased by RM 188.4 million from RM 244.3 million to RM 55.9 million due to higher effective tax rate as a consequence of no further reinvestment allowance claimable and lower profit.

Olefins and derivative products

The segment recorded a decrease in revenue of RM 142.2 million from RM 577.7 million in Q1 2018 to RM 435.5 million in Q1 2019. This was primarily due to the decrease in selling price in Q1 2019 as compared to the corresponding quarter and partially offsetted by higher sales volume.

Profit before tax decreased by RM 82.8 million from RM 98.9 million in Q1 2018 to RM 16.1 million in Q1 2019 mainly due to margin squeeze resulting from lower average selling price.

Polyolefin products

The segment recorded an increase in revenue of RM 97.9 million from RM 1,636.6 million in Q1 2018 to RM 1,734.5 million in Q1 2019. This was primarily due to an increase in sales volume in Q1 2019 as compared to the corresponding quarter due to new plant capacity and partially offsetted by decrease in average product selling price.

Profit before tax decreased by RM 108.4 million from RM 205.6 million in Q1 2018 to RM 97.2 million in Q1 2019 mainly due to margin squeeze resulting from lower product selling price.

B2. Variation of results against the preceding quarter

	Quarter ended 31 March 2019 RM'000	Quarter ended 31 December 2018 RM'000
Revenue	2,170,003	2,336,972
Profit/(Loss) before tax	89,130	(27,065)
EBITDA	236,933	108,090

Part B - Other explanatory notes (cont'd)

B2. Variation of results against the preceding quarter (cont'd)

Group revenue decreased by RM 167.0 million or 7.1% from RM 2,337.0 million to RM 2,170.0 million due to decrease in average product selling price in Q1 2019 compared to the preceding quarter. It was partially offset by the increased in sales volume which was driven by improvement in production quantity as compared to Q4 2018.

The average group utilisation rate increased from 81% to 87% due to improved plant reliability. The plants were operating at a sufficient level to maintain profit maximization taking into consideration the need for general plant maintenance.

Profit before tax increased by RM 116.2 million from loss before tax of RM 27.1 million to profit before tax of RM 89.1 million mainly due to the improved margin as a result of decrease in feedstock cost. In addition, there was a provision for write down of inventory cost to net realisable value of RM 45.8 million made in Q4 2018.

B3. Commentary on prospects

The results of our operations for the financial year ending 31 December 2019 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 provided demand and supply for Polyolefins are balanced.

Crude oil price has been increasing since end of last year, as a consequence of production cuts by OPEC and Russia. This is likely to extend until end of 2019 to offset expected higher US shale production. New US sanctions on Venezuela and removal of waivers of Iranian crude oil export will further reduce global crude oil supply. These factors are lending support towards crude oil price uptrend momentum. Moving ahead, crude oil would remain volatile, pending unresolved conflicts in the Middle East region and any new agreement on the US-China trade negotiations.

Domestically, new additional capacities are expected to create short-term supply and demand imbalances. The additional supply is expected to be gradually absorbed by the high consumption growth in South East Asia (SEA) region.

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Part B - Other explanatory notes (cont'd)

B3. Commentary on prospects (cont'd)

Economic environment remain challenging with recent downgrade in IMF outlook for global economy in 2019, citing impact from global trade tensions. Bracing for the global trade impact, emerging markets and SEA region will experience similar headwinds where economic activities are expected to slow down in 2019.

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):

	Quarter ended 31 March	
	2019 RM'000	2018 RM'000
Depreciation of property, plant and equipment	156,278	118,897
Loss/(Gain) on foreign exchange:		
- Realised	3,206	12,151
- Unrealised	15,507	(2,499)
Amortisation of prepaid lease payments	-	691
Inventories written off	3	1
Property, plant and equipment written off	365	-
Loss on disposal of property, plant and equipment	-	187
Loss on partial settlement of derivative financial instruments	-	14
Impairment loss on trade receivables	596	-
Reversal of write down of inventories to net realisable value	(37,812)	(482)
Bad debts recovered	-	(1)
Fair value changes in derivatives	(852)	(564)

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Part B - Other explanatory notes (cont'd)

B6. Finance costs

	Individual quarter ended 31 March	
	2019	**2018**
	RM'000	**RM'000**
Unwinding of lease liabilities	922	-
Bank charges	539	487
Letter of credit charges	302	351
Unwinding of discount on provision	2,013	2,809
Other finance costs	64	64
	3,840	3,711

B7. Income tax

	Quarter ended 31 March	
	2019	**2018**
	RM'000	**RM'000**
Current tax		
Current year	10,217	8,222
Deferred tax		
Origination and reversal of temporary differences	23,051	44,651
Underprovision in prior year	-	2,685
	23,051	47,336
Total income tax recognised in profit or loss	33,268	55,558

The Group effective tax rate of 37% for the quarter ended 31 March 2019 is higher than the statutory tax rate of 24%. This is primarily due to the fact that profit before tax recorded by the Group during the current financial period decreased while the non-tax deductible expenses such as depreciation expenses arising from the Group’s non qualifying, property, plant and equipment expenditures remained relatively constant.

B8. Sales of unquoted investments/properties

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

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Part B - Other explanatory notes (cont'd)

B9. Quoted securities

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

B10. Status of corporate proposals

Based on the IPO price of RM 6.50 per share, gross proceeds of RM 3,770 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 31 March 2019 RM'000	Percentage utilised %
Funding of following projects:				
(i) Integrated Petrochemical Facility (Note 1)	Within 36 months	2,634,213	106,902	4%
(ii) TE3 Project	Within 12 months	220,000	220,000	100%
(iii) PP3 Project (Note 2)	Within 12 months	606,805	510,000	84%
Estimated listing expenses (Note 3)	Within 6 months	82,730	82,730	100%
		3,543,748	919,632	26%

Note 1: The funding for Integrated Petrochemical Facility has been revised from RM 2,588,044,000 to RM 2,634,213,000 due to the excess fund from PP3 project and listing expenses.

Note 2: The PP3 project has been revised from RM 620,000,000 to RM 606,805,000. The excess fund of RM 13,195,000 from PP3 project would be invested in the Integrated Petrochemical Facility. The PP3 project fund utilisation of RM 510,000,000 excludes RM 96,805,000 funded from our internally generated funds which will be reimbursed subsequently from the IPO proceeds. The percentage utilised would then increase to 100%.

Note 3: The listing expenses has been revised from RM 115,704,000 to RM 82,730,000. The excess fund of RM 32,974,000 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. As at 31 March 2019, RM 125 million of unutilised funds are reserved in Indonesia temporary for subsequent payment to suppliers of Integrated Petrochemical Facility.

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
Successful ground-breaking ceremony held in Indonesia on 7th December 2018. Appropriate project structure is currently under review, and started to work for the land preparation in project site while construction is scheduled to commence in 2019/2020.

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

(iii) PP3 Project
The project has started commercial operation since 1st September 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.

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Part B - Other explanatory notes (cont'd)

B13. Other investment

	As at 31 March 2019 RM'000	As at 31 December 2018 RM'000
Unutilised proceeds from initial public offering	1,029,850	1,029,131
Proceeds from internally generated funds	252,840	120,682
	1,282,690	1,149,813

Other investment comprise solely of fund placements with licensed financial institutions.

B14. Cash and bank balances

	As at 31 March 2019 RM'000	As at December 2018 RM'000
Unutilised proceeds from initial public offering		
Cash at banks	91,679	34,913
Short term deposits with licensed financial institutions	1,683,710	1,777,204
	1,775,389	1,812,117
Others		
Cash at banks and on hand	474,029	450,183
Short term deposits with licensed financial institutions	4,376	-
	2,253,794	2,262,300

B15. Off balance sheet financial instruments

There were no off balance sheet financial instruments for the period ended 31 March 2019.

B16. 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)

B17. Dividends

No dividend has been paid by the Company for the quarter ended 31 March 2019

The final single tier dividend of 17.0 sen per share on 2,272,983,500 ordinary shares in respect of the financial year ended 31 December 2018 has been declared and approved by shareholders on 25 April 2019 and the dividend will be paid on 3 June 2019.

B18. 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 31 March	
	2019	**2018**
Net profit attributable to the owner of the Company (RM'000)	55,831	244,197
Weighted average number of ordinary shares at the end of the period ('000)	2,272,984	2,272,984
Basic and diluted EPS (sen)	2.46	10.74

B19. 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 2018.