Kwantas Corporation Berhad
Registration No.: 199501027397 (356602-W)

Condensed Consolidated Statement of Comprehensive Income
For The Period Ended 31 December 2019
(The figures have not been audited, unless stated otherwise)

	Note	Individual Period 3 months Ended 31.12.2019 RM'000	Individual Period 3 months Ended 31.12.2018 RM'000	Cumulative Period 6 months Ended 31.12.2019 RM'000	Cumulative Period 6 months Ended 31.12.2018 RM'000
Revenue	8	252,729	205,288	456,495	356,575
Cost of sales		(223,154)	(191,844)	(415,085)	(332,711)
Gross profit		29,575	13,444	41,410	23,864
Other items of income					
Interest income		142	283	342	527
Other operating income		2,772	2,440	4,806	6,106
Other items of expenses					
Selling expenses		(7,391)	(6,530)	(13,192)	(12,002)
Administrative expenses		(23,366)	(24,863)	(35,486)	(40,936)
Other operating expenses		(1,803)	12,825	(1,833)	(1,272)
Finance costs		(6,166)	(8,066)	(12,076)	(12,995)
Loss before tax	17	(6,237)	(10,467)	(16,029)	(36,708)
Taxation	20	(600)	(840)	(1,100)	(1,000)
Loss for the financial period		**(6,837)**	**(11,307)**	**(17,129)**	**(37,708)**
Other comprehensive loss					
Item that to be reclassified in subsequent period to profit or loss:					
Foreign currency translation		(1,064)	(52)	(2,853)	(5,234)
		(1,064)	(52)	(2,853)	(5,234)
Total comprehensive income/(loss) for the period		**(7,901)**	**(11,359)**	**(19,982)**	**(42,942)**
Loss for the period attributable to:					
Owners of the Company		(6,229)	(10,652)	(16,141)	(36,717)
Non-controlling interests		(608)	(655)	(988)	(991)
		(6,837)	**(11,307)**	**(17,129)**	**(37,708)**
Total comprehensive loss attributable to:					
Owners of the Company		(7,293)	(10,704)	(18,994)	(41,951)
Non-controlling interests		(608)	(655)	(988)	(991)
		(7,901)	**(11,359)**	**(19,982)**	**(42,942)**
Loss per share attributable to Owners of the Company (sen):					
Basic	27 (a)	(2.00)	(3.42)	(5.18)	(11.78)

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the year ended 30 June 2019 and the accompanying explanatory notes attached to the interim financial statements.

Kwantas Corporation Berhad
Registration No.: 199501027397 (356602-W)

Condensed Consolidated Statement of Financial Position
As At 31 December 2019
(The figures have not been audited, unless stated otherwise)

	Note	As at 31.12.2019 RM'000	As at 30.06.2019 *(Audited)* RM'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	9	1,567,558	1,602,379
Investment properties	9	47,330	47,330
Land use rights		11,526	11,407
Right-of-use assets		4,597	-
		1,631,011	1,661,116
Current Assets			
Inventories		144,050	110,696
Biological assets		7,280	4,803
Trade and non-trade receivables		54,393	43,454
Tax recoverable		4,080	3,234
Cash and cash equivalents	22	42,540	39,727
		252,343	201,914
TOTAL ASSETS		**1,883,354**	**1,863,030**
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		209,566	209,566
Other reserves		637,046	639,899
Retained earnings		269,424	285,598
		1,116,036	1,135,063
Non-controlling interests		(17,645)	(16,657)
Total equity		1,098,391	1,118,406
Non-Current Liabilities			
Loans and borrowings	23	13,965	23,205
Lease liabilities		704	-
Deferred tax liabilities		234,368	234,868
		249,037	258,073
Current Liabilities			
Loans and borrowings	23	469,056	431,835
Lease liabilities		3,578	-
Trade and non-trade payables		60,981	54,229
Derivative liabilities	24	2,311	487
		535,926	486,551
Total liabilities		784,963	744,624
TOTAL EQUITY AND LIABILITIES		**1,883,354**	**1,863,030**

The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the year ended 30 June 2019 and the accompanying explanatory notes attached to the interim financial statements.

Kwantas Corporation Berhad
Registration No.: 199501027397 (356602-W)

Condensed Consolidated Statement of Changes in Equity
For The Period Ended 31 December 2019
(The figures have not been audited, unless stated otherwise)

	Attributable to owners of the Company								
	Non-distributable	Distributable	Non-distributable						
	Share capital RM'000	Retained earnings RM'000	Other reserves total RM'000	Asset revaluation reserve RM'000	Fair value adjustment reserve RM'000	Foreign currency translation reserve RM'000	Equity attributable to owners of the Company, Total RM'000	Non-controlling Interests RM'000	Total equity RM'000
At 1 July 2018, as previously reported	209,566	199,566	779,697	741,885	4,193	33,619	1,188,829	(8,584)	1,180,245
Effects of adoption of MFRSs (Note 2)	-	175,053	(138,610)	(115,349)	-	(23,261)	36,443	(883)	35,560
At 1 July 2018, as restated	209,566	374,619	641,087	626,536	4,193	10,358	1,225,272	(9,467)	1,215,805
Loss net of tax	-	(26,065)	-	-	-	-	(26,065)	(336)	(26,401)
Other comprehensive loss									
Foreign currency translation	-	-	(5,182)	-	-	(5,182)	(5,182)	-	(5,182)
	-	-	(5,182)	-	-	(5,182)	(5,182)	-	(5,182)
Total comprehensive loss	-	(26,065)	(5,182)	-	-	(5,182)	(31,247)	(336)	(31,583)
At 31 December 2018	209,566	348,554	635,905	626,536	4,193	5,176	1,194,025	(9,803)	1,184,222
At 1 July 2019, as previously reported	209,566	285,598	639,899	631,367	4,193	4,339	1,135,063	(16,657)	1,118,406
Effects of adoption of MFRSs (Note 2)	-	(33)	-	-	-	-	(33)	-	(33)
At 1 July 2019, as restated	209,566	285,565	639,899	631,367	4,193	4,339	1,135,030	(16,657)	1,118,373
Loss net of tax	-	(16,141)	-	-	-	-	(16,141)	(988)	(17,129)
Other comprehensive loss									
Foreign currency translation	-	-	(2,853)	-	-	(2,853)	(2,853)	-	(2,853)
	-	-	(2,853)	-	-	(2,853)	(2,853)	-	(2,853)
Total comprehensive loss	-	(16,141)	(2,853)	-	-	(2,853)	(18,994)	(988)	(19,982)
At 31 December 2019	209,566	269,424	637,046	631,367	4,193	1,486	1,116,036	(17,645)	1,098,391

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 30 June 2019 and the accompanying explanatory notes attached to the interim financial statements.

Kwantas Corporation Berhad
Registration No.: 199501027397 (356602-W)

Condensed Consolidated Statements of Cash Flows
For The Period Ended 31 December 2019
(The figures have not been audited, unless stated otherwise)

	6 months Ended	
	31.12.2019	**31.12.2018**
	RM'000	**RM'000**
OPERATING ACTIVITIES		
Loss before tax	(16,029)	(36,708)
Adjustments for:		
Allowance on receivables	-	1,407
Depreciation and amortisation of property, plant and equipment	37,930	25,729
Fair value loss on derivative financial instruments	1,833	430
Fair value (gain)/loss on biological assets	(2,477)	10,059
Property, plant and equipment written off	-	284
Provision for loss in litigation	10,227	-
Gain on disposal of property, plant and equipment	-	(265)
Unrealised loss on foreign exchange	3,931	832
Interest expense	12,076	12,995
Interest income	(342)	(527)
Total adjustments	63,178	50,944
Operating cash flows before working capital changes	47,149	14,236
Changes in working capital:		
Change in inventories	(33,354)	(33,364)
Change in receivables	(14,870)	(12,977)
Change in payables	(3,475)	(3,553)
Total changes in working capital	(51,699)	(49,894)
Cash flows used in operations	(4,550)	(35,658)
Interest paid	(12,076)	(12,995)
Income tax paid	(2,446)	(8,728)
Net cash flows used in operating activities	(19,072)	(57,381)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(11,778)	(4,049)
Proceeds from disposal of property, plant and equipment	-	265
Interest received	342	527
Net cash flows used in investing activities	(11,436)	(3,257)
FINANCING ACTIVITIES		
Drawdown of bankers' acceptances and trust receipts	330,493	316,209
Drawdown of revolving credits	1,473,500	1,376,000
Drawdown of term loans	-	11,596
Repayment of revolving credits	(1,489,200)	(1,376,000)
Repayment of term loans	(9,613)	(9,486)
Repayment of bankers acceptances and trust receipts	(275,550)	(250,051)
Payment of lease liabilities	(306)	(195)
Net cash flows from financing activities	29,324	68,073
Net change in cash and cash equivalents	(1,184)	7,435
Effect of exchange rate differences	3,997	(1,369)
Cash and cash equivalents at beginning of the period	39,727	25,171
Cash and cash equivalents at end of period (Note 22)	**42,540**	**31,237**

The condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the year ended 30 June 2019 and the accompanying explanatory notes attached to the interim financial statements.

1. Basis of Preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 30 June 2019. These explanatory notes attached to the condensed consolidated interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 30 June 2019.

2. Significant Accounting Policies

The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted for the annual audited financial statements for the financial year ended 30 June 2019 except for the adoption of standards and amendments to standards and interpretations that are mandatory for the Group for the financial year beginning 1 July 2019:

MFRS 16: *Leases*
Amendments to MFRS 9: *Prepayment Features with Negative Compensation*
Amendments to MFRS 119: *Plan Amendment, Curtailment or Settlement*
IC Interpretation 23: *Uncertainty over Income Tax Treatments*
Annual Improvements to MFRS Standards 2015-2017 cycle

The adoption of these new MFRS, amendments and IC interpretations did not have any material impact on the interim financial report of the Group except for the following:

MFRS 16 Leases

MFRS 16: *Leases* supersedes MFRS 117: *Leases* and the related interpretations. MFRS 16 introduces a single accounting model, requiring the lessee to recognise the “right-of-use” of the underlying asset and the lease liability reflecting future lease payments liabilities in the statement of financial position. The right-of-use asset is depreciated in accordance with the principles in MFRS 116 *Property, Plant and Equipment* and the lease liability is accreted over time with interest expense recognised in the income statement. For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The Group has adopted MFRS 16 retrospectively from 1 July 2019 using the simplified transition approach and has not restated comparatives for the financial year ended 30 June 2019, as permitted under the standard. The reclassifications and adjustments arising from the new leasing rules are therefore reflected in the opening balance of statement of financial position as at 1 July 2019, being the date of initial application.

As permitted by the exemptions under the standard, the Group has not applied the principles of MFRS 16 to short term leases (a lease with lease term of 12 months or less from date of commencement) and leases for which the underlying asset is of low value.

2. Significant Accounting Policies (Continued)

MFRS 16 Leases (Continued)

The adoption of MFRS 16 for operating leases and finance leases are as follows:

(i) Leases previously classified as operating leases

On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of MFRS 117. These liabilities are measured at the present value of the remaining lease payments and discounted using the lessee's incremental borrowing rate as of 1 July 2019.

On a lease-by-lease basis, the Group measures the associated right-of-use asset on a retrospective basis either at its carrying amount as if the new rules had always been applied or at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised as at 30 June 2019.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment by applying MFRS 117 and IC Interpretation 4 "Determining whether an Arrangement contains a Lease".

(ii) Leases previously classified as finance leases

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use assets and lease liabilities at the date of initial application. The measurement principles of MFRS 16 are then applied after that date. Consequently, reclassifications from property, plant and equipment have been made to right-of-use assets at the date of initial application.

The table below shows the impact of changes to the condensed consolidated statement of financial position of the Group resulting from the adoption of MFRS 16 as at 1 July 2019:

	As at 30.06.2019 RM'000	*Effects of adoption of MFRS 16 RM'000*	*As at 01.07.2019 RM'000*
Non-current assets			
Property, plant and equipment	1,602,379	(2,515)	1,599,864
Right-of-use assets	-	5,006	5,006
Non-current liabilities			
Loans and borrowings	23,205	(984)	22,221
Lease liabilities	-	2,916	2,916
Current liabilities			
Loans and borrowings	431,835	(1,081)	430,754
Lease liabilities	-	1,672	1,672
Equity			
Retained earnings	285,598	(33)	285,565

2. Significant Accounting Policies (Continued)

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

Descriptions	***Effective for annual periods beginning on or after***
Amendments to MFRS 3: Business Combinations – Definition of a Business	1 January 2020
Amendments to MFRS 101: Presentation of Financial Statements and MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors- Definition of Material	1 January 2020
Revised Conceptual Framework for Financial Reporting	1 January 2020
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The Directors anticipate that the abovementioned MFRS and Amendments will be adopted in the annual financial statements of the Group when they become effective and that the adoption of these Standards and Amendments are not expected to have any material impact on the financial statements of the Group in the period of initial application.

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report on the financial statements for the financial year ended 30 June 2019 was not qualified.

4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter under review.

5. Changes in Estimates

In the financial year ended 30 June 2019, the estimated value of unripe FFB on bearer plants has been revised to 21 days calculated from the end of oil deposition in mesocarp estimated at between week 20 to week 24 with a mean of week 21 up to maturity at week 24 where previously, the estimated value of unripe FFB on bearer plants was calculated from the commencement of oil deposition in the mesocarp which is at week 15 after pollination and continues until fruit maturity. The management has considered that the net cash flow to be generated from FFB prior to more than 21 days to harvest to be negligible. Therefore, quantity of unripe FFB on bearer plants of up to 21 days prior to harvest was used for valuation purposes as it is believed to be more reflective.

Prior to the above change in accounting estimate, the group had recognised a fair value loss on biological assets which amounted to RM10.1 million in preceding corresponding quarter. Had the above change in accounting estimate been applied retrospectively from preceding corresponding quarter, fair value loss on biological assets would amount to RM2.1 million.

There were no other material changes in estimates that have had material effects in the current quarter results.

6. Comments About Seasonal or Cyclical Factors

The seasonal or cyclical factors affecting the results of the operations of the Group are general climatic conditions, age profile of oil palms, the cyclical nature of annual production and fluctuating commodity prices.

7. Dividend Payable

No dividend was paid/payable during the current quarter under review.

8. Segmental Information

	Oil palm plantations and palm products		*Oleochemical products*		*Other operating segments*		*Per consolidated financial statements*	
	31.12.19	***31.12.19***	***31.12.19***	***31.12.18***	***31.12.19***	***31.12.18***	***31.12.19***	***31.12.18***
	RM'000	***RM'000***	***RM'000***	***RM'000***	***RM'000***	***RM'000***	***RM'000***	***RM'000***
3 months ended 31 December (Individual Period)								
Revenue								
External sales	168,055	142,926	84,674	62,362	-	-	252,729	205,288
Total Revenue	168,055	142,926	84,674	62,362	-	-	252,729	205,288
Results								
Interest income	135	279	7	4	-	-	142	283
Depreciation & amortisation	(16,956)	(10,708)	(1,825)	(1,949)	(211)	(211)	(18,992)	(12,868)
Segment profit/(loss) before tax	1,369	(62)	(7,359)	(10,189)	(247)	(216)	(6,237)	(10,467)
Reconciliation								
Segment profit/(loss) before tax	1,369	(62)	(7,359)	(10,189)	(247)	(216)	(6,237)	(10,467)
Add/(Less): Non-cash and provisional items								
Fair value loss on derivatives	2,409	234	-	-	-	-	2,409	234
Fair value gain on biological assets	(2,507)	(3,307)	-	-	-	-	(2,507)	(3,307)
Unrealised foreign exchange loss/(gain)	1,655	(1,215)	-	-	-	-	1,655	(1,215)
Depreciation and amortisation expenses	16,956	10,708	1,825	1,949	211	211	18,922	12,868
Gain on disposal of property, plant and equipment	-	(255)	-	-	-	-	-	(255)
Property, plant and equipment written off	-	1	-	-	-	-	-	1
Provision for loss on litigation	-	-	10,227	-	-	-	10,227	-
Allowance on receivables	-	16	-	1,391	-	-	-	1,407
Total	18,513	6,182	12,052	3,340	211	211	30,776	9,733
Segment profit/(loss) excluding non-cash and provisional items	**19,882**	**6,120**	**4,693**	**(6,849)**	**(36)**	**(5)**	**24,539**	**(734)**

8. Segmental Information (Continued)

	Oil palm plantations and palm products		*Oleochemical products*		*Other operating segments*		*Per consolidated financial statements*	
	31.12.19	***31.12.19***	***31.12.19***	***31.12.18***	***31.12.19***	***31.12.18***	***31.12.19***	***31.12.18***
	RM'000	***RM'000***	***RM'000***	***RM'000***	***RM'000***	***RM'000***	***RM'000***	***RM'000***
6 months ended 31 December (Cumulative Period)								
Revenue								
External sales	313,684	278,696	142,811	77,879	-	-	456,495	356,575
Total Revenue	313,684	278,696	142,811	77,879	-	-	456,495	356,575
Results								
Interest income	329	521	13	6	-	-	342	527
Depreciation & amortisation	(33,780)	(21,407)	(3,727)	(3,899)	(423)	(423)	(37,930)	(25,729)
Segment loss before tax	(6,697)	(22,131)	(8,868)	(14,151)	(464)	(426)	(16,029)	(36,708)
Reconciliation								
Segment loss before tax	(6,697)	(22,131)	(8,868)	(14,151)	(464)	(426)	(16,029)	(36,708)
Add/(Less): Non-cash and provisional items								
Fair value loss on derivatives	1,833	430	-	-	-	-	1,833	430
Fair value (loss)/gain on biological assets	(2,477)	10,059	-	-	-	-	(2,477)	10,059
Unrealised foreign exchange loss	3,931	832	-	-	-	-	3,931	832
Depreciation and amortisation expenses	33,780	21,407	3,727	3,899	423	423	37,930	25,729
Gain on disposal of property, plant and equipment	-	(265)	-	-	-	-	-	(265)
Property, plant and equipment written off	-	284	-	-	-	-	-	284
Provision for loss on litigation	-	-	10,227	-	-	-	10,227	-
Allowance on receivables	-	16	-	1,391	-	-	-	1,407
Total	37,067	32,763	13,954	5,290	423	423	51,444	38,476
Segment profit/(loss) excluding non-cash and provisional items	**30,370**	**10,632**	**5,086**	**(8,861)**	**(41)**	**(3)**	**35,415**	**1,768**

9. Carrying Amount of Revalued Assets

The valuation of land, buildings and bearer plants included within property, plant and equipment and investment properties have been brought forward without amendment from the financial statements for the financial year ended 30 June 2019.

10. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debt and equity securities during the current quarter ended 31 December 2019.

11. Changes in Composition of the Group

There were no changes in the composition of the Group during the current quarter under review.

12. Capital Commitments

The amount of capital commitments for the plantation development activities not provided for in the financial statements as at 31 December 2019 is as follows:

	RM'000
Approved and contracted for	4,823

13. Changes in Contingent Liabilities and Contingent Assets

Unsecured

The Company has provided corporate guarantees to secure banking facilities granted to its subsidiary companies. The amount utilised and outstanding as at 31 December 2019 amounted to approximately RM367 million.

14. Subsequent Events

On 14 February 2020, the Company received the statement of judgment relating to the appeal of litigation between Shanghai Hengtong Energy Development Co., Ltd ("the Plaintiff") and Dongma Palm Industries (Zhangjiagang) Co., Ltd ("the Defendant"), the latter that is a wholly owned subsidiary of the Company. The Shanghai No.1 Intermediate Court ("the Court"), whom was assigned to handle the appeal of litigation, had ordered the appeal to be dismissed, and had upheld the decision of the original judgment or judgment of first instance as decided by Shanghai Pudong New Area People's Court on 24 October 2019. The Defendant lost the appeal and had become liable to pay the litigation sum of RMB 24,436,767.54 (equivalent to approximately RM 14.73 million) as stated in the original judgment. The Company had provided for loss on litigation of RM10.23 million (Note 17) during the quarter as a result of the above-mentioned lost appeal by the Defendant, whereby the provision sum is net of the value of goods belonged to the Plaintiff that is held under lien by the Defendant upon commencement of the legal proceedings on 24 October 2018.

As advised by the Company's solicitor in Shanghai, the payment instruction relating to the aforementioned litigation sum has yet to be issued by the Court and it is anticipated that the payment will be made in March 2020. The Company is considering various legal options available including reserving the right to seek for retrial of the case.

There were no other material events subsequent to the end of the current quarter under review, except as disclosed above.

15. Detailed Analysis of the Performance of All Operating Segments of the Group

The Group's loss before taxation for the current quarter has reduced by 77% to RM16.0 million (Q2 FY2019: RM36.7 million) whilst revenue has increased by 28% to RM456.5 million (Q2 FY2019: RM356.6 million).

Oil palm plantations and palm products

Oil palm plantations and palm products segment represents the core business of the Group. This major segment has contributed approximately 69% of the Group's total revenue in the current quarter. Revenue reported from this segment increased by 12% to RM313.6 million in the current quarter (Q2FY2019: RM278.7 million). The segment reported a loss before taxation of RM6.7 million, a significant improvement as compared to loss of RM22.1 million incurred in the preceding corresponding quarter which mainly attributed to the following factors:

a) <u>Higher revenue contributed by sales of CPO</u>

In current quarter, 82% of the segmental revenue were contributed by the sale of CPO. The realised average selling price of CPO has increased from RM2,078 per MT in the preceding corresponding quarter to RM2,098 per MT in the current quarter. CPO sales volume in the current quarter has increased by 26.6% or 25,643 MT as compared to preceding corresponding quarter.

b) <u>Fair value gain on biological assets</u>

Under MFRS 141: *Agriculture*, the Group recognised a fair value gain of RM2.4 million on biological assets in current quarter (Q2 FY2019: loss of RM10.1 million) mainly attributable to higher FFB market price as well as change in accounting estimate as disclosed in Note 5. Had the change in accounting estimate been applied retrospectively in Q2 FY2019, fair value loss on biological assets would amount to RM2.1 million in previous corresponding quarter.

In current quarter, the segment recognised RM33.8 million of depreciation and amortisation of property, plant and equipment as well as RM3.9 million of unrealised foreign exchange losses arising from the outstanding balances denominated in foreign currencies. The slight increase in finance costs of the segment in the current quarter arises from the increased utilisation of banking facilities for trading activities.

As shown in Note 8, the underlying profit to the Group after excluding non-cash and provisional items were RM30.4 million in the current quarter (Q2 FY2019: RM10.6 million), representing a significant improvement from the preceding corresponding quarter and a positive profit margin of 9.7%.

Oleochemical products

Oleochemical products segment remained as a significant business to the Group as it has accounted for approximately 31% of the Group's total revenue in the current quarter. Revenue reported from this segment has increased significantly by 83.4% to RM142.8 million in the current quarter (Q2 FY2019: RM77.9 million), mainly due to increased production and trading of Oleochemical products. The volume traded for Oleochemical products has since increased to 53,420 MT in the current quarter (Q2 FY2019: 30,080 MT), whilst the average selling price of the Oleochemical products has increased slightly from RM2,571 per MT in the preceding corresponding quarter to RM2,599 per MT in the current quarter.

15. Detailed Analysis of the Performance of All Operating Segments of the Group (continued)

Oleochemical products (continued)

During the quarter, the segment has incurred a loss before taxation of RM8.9 million, slight improvement from the preceding corresponding quarter loss before taxation of RM14.1 million. As shown in Note 8, the segment made an underlying operating profit of RM5.1 million (Q2 FY2019: underlying losses of RM8.9 million) from its business operations after excluding non-cash item such as depreciation and amortisation of property, plant and equipment of RM3.7 million and provision for loss on litigation of RM10.23 million incurred in the current quarter.

Other operating segments

The results from other operating segments are insignificant to the Group.

16. Comment on Material Change in Profit Before Tax for the Current Quarter as Compared with the Immediate Preceding Quarter

	Current Quarter 3 months ended 31.12.2019 RM'000	*Immediate Preceding Quarter 3 months ended 30.09.2019 RM'000*	*Changes (Amount) RM'000*	*Changes (%)*
Revenue	252,729	203,766	48,963	24%
Loss before interest and tax	(71)	(3,882)	3,811	98%
Loss before tax	(6,237)	(9,792)	3,555	36%
Loss after tax	(6,837)	(10,292)	3,455	34%

The Group reported a loss before tax of RM6.2 million in the current quarter, slight improvement from the loss before tax of RM9.8 million incurred in immediate preceding quarter (Q1 FY2020), mainly attributed to the following factors:

a) Average selling price per MT for CPO and CPKO were 13.7% and 20.6% higher at RM2,098 per MT and RM2,475 per MT respectively as compared to immediate preceding quarter (Q1 FY2020: RM1,967 per MT and RM2,273 per MT respectively). The combined trading volume of CPO and CPKO had decreased slightly from 68,036 MT in immediate preceding quarter to 67,526 MT in current quarter.

b) The Group has reported a gross profit margin of 11.7% in the current quarter, which represents an improvement from the gross profit margin of 5.8% in the immediate preceding quarter.

c) As a result of higher FFB market price, the Group has recognised a fair value gain on biological assets of RM2.5 million as compared to fair value loss of RM0.03 million in immediate preceding quarter.

d) During the quarter, the Group has recognised fair value loss on derivative financial instruments of RM2.4 milion (Q1 FY2020: Fair value gain of RM0.58 million), provision for loss on litigation of RM10.23 million arising from material litigation with Shanghai Heng Tong as stated in Note 25(b)(i) (Q1 FY2020: nil), as well as unrealised foreign exchange loss of RM1.6 million (Q1 FY2020: unrealised loss of RM2.3 million).

Excluding non-cash and provisional items, the Group reported an underlying profit of RM24.5 million in the current quarter (Q1 FY2020: underlying profit of RM10.9 million), representing profit margin of 9.7%.

17. Loss Before Tax

Loss before tax for the period is arrived at after (charging)/crediting:

	Individual Period 3 months ended		***Cumulative Period 6 months ended***	
	31.12.2019 RM'000	***31.12.2018 RM'000***	***31.12.2019 RM'000***	***31.12.2018 RM'000***
Allowance for doubtful debts	-	(1,407)	-	(1,407)
Depreciation and amortisation of property, plant and equipment	(18,992)	(12,868)	(37,930)	(25,729)
Fair value loss on derivative financial instruments	(2,409)	(234)	(1,833)	(430)
Fair value gain/(loss) on biological assets	2,507	3,307	2,477	(10,059)
Gain on disposal of property, plant and Equipment	-	255	-	265
Interest income	142	283	342	527
Interest expense	(6,166)	(8,066)	(12,076)	(12,995)
Property, plant and equipment written off	-	(1)	-	(284)
Provision for loss on litigation	(10,227)	-	(10,227)	-
Realised foreign exchange (loss)/gain	(1,129)	296	(1,956)	2,229
Unrealised foreign exchange (loss)/gain	(1,655)	1,215	(3,931)	(832)

18. Commentary on Prospects

Oil palm plantation and palm products segment remains as a significant contributor to the overall profitability of the Group. As the market has seen a gradual improvement in CPO market price coupled with improved productivity from the Group's oil palm plantations, forward sales commitments and forward price hedging strategies, the management anticipates that the segment will continue to contribute positive margins to the Group.

Oleochemical products segment had become a significant contributor to the overall revenue and profitability of the Group during the current quarter. Despite the segment is facing challenges in terms of the fluctuations in the USD/RMB currency, Oleochemical products segment had been able to contribute positive underlying operating margins to the Group during the current quarter. The Group will continue to adopt new strategies and policies to strive to achieve higher productivity and to become more competitive in terms of pricing and quality of Oleochemical products.

With the recent outbreak of the novel coronavirus ("COVID-19"), demand for agricultural consumption, particularly for vegetable oil is likely to slow down. The spread of the virus had triggered the China government to impose various restrictions including transportation and logistics that could hold up the deliveries of palm products where movement of goods interstate are limited and import of liquid goods are under stricter monitoring process. Nonetheless, the management remains optimistic on the long term prospect of the palm oil industry due to sturdy demand from biodiesel mandates, as well as local demand for Oleochemical products upon loosening of COVID-19 restrictions by the China government. Overall, the management expects its performance for remaining periods of financial year 2020 to be satisfactory.

19. Profit Forecast or Profit Guarantee

The disclosure requirements for explanatory notes for the variance of actual profit and forecast profit and for the shortfall in profit guarantee are not applicable.

20. Income Tax Expense

	Individual Period 3 months ended		*Cumulative Period 6 months ended*	
	31.12.2019 RM'000	***31.12.2018 RM'000***	***31.12.2019 RM'000***	***31.12.2018 RM'000***
Current income tax:				
- Malaysian income tax	600	1,140	1,600	1,500
Deferred tax	-	(300)	(500)	(500)
Total income tax expense	**600**	**840**	**1,100**	**1,000**

The effective tax rate for the current quarter was higher than the statutory income tax rate of 24% (Q2 FY2019: 24%) principally due to non-deductible expenses for tax purposes, which include fair value loss on biological assets and unrealised foreign exchange differences, as well as business profits generated from certain subsidiaries (i.e. oil palm plantation and palm products segment).

21. Corporate Proposals

There are no other corporate proposals announced but not completed as at 28 February 2020.

22. Cash and Cash Equivalents

	As at 31.12.2019 RM'000	***As at 30.06.2019 (Audited) RM'000***
Cash and bank balances	34,340	21,627
Short-term deposits with licensed banks	8,200	18,100
Cash and cash equivalents	**42,540**	**39,727**

23. Loans and borrowings

	As at 31.12.2019			*As at 30.06.2019 (Audited)*		
	Denominated in foreign currency RM'000	**Denominated in RM RM'000**	**Total RM'000**	**Denominated in foreign currency RM'000**	**Denominated in RM RM'000**	**Total RM'000**
Long term						
Secured						
Hire purchase*	-	-	-	-	984	984
Term loan	-	13,965	13,965	-	22,221	22,221
Total	**-**	**13,965**	**13,965**	**-**	**23,205**	**23,205**
Short term						
Secured						
Hire purchase*	-	-	-	-	1,081	1,081
Term loan	-	14,400	14,400	-	15,757	15,757
Banker acceptance	50,075	163,281	213,356	34,064	123,933	157,997
Revolving credits	-	241,300	241,300	-	257,000	257,000
Total	**50,075**	**418,981**	**469,056**	**34,064**	**397,771**	**431,835**
Total borrowings	**50,075**	**432,946**	**483,021**	**34,064**	**420,976**	**455,040**

* Hire purchase previously reported as loans and borrowings were reclassified to lease liabilities upon the adoption of *MFRS 16 Leases* in the current quarter, as disclosed in Note 2.

24. Derivative Liabilities

As at 31 December 2019, the values and maturity analysis of the outstanding derivatives liabilities are as follows:

	Contract/ Notional Amount RM '000	*Fair Value Gain/(Loss) RM '000*
i) Forward Currency Contracts - Less than 1 year	(1,996)	(184)
ii) Commodity Swap Contracts - Less than 1 year	(315)	(1,649)
Net Total	**(2,311)**	**(1,833)**

The Group had entered into forward currency contracts and commodity swap, options and future contracts to manage some of the transactions exposure to foreign exchange fluctuations and commodity price fluctuations respectively. These contracts were not designated as cash flow or fair value hedges and were entered into for periods consistent with currency transaction exposures and fair value changes exposure.

With the adoption of MFRS 9, the derivative financial instruments are initially stated at fair value on contract dates and are subsequently re-measured at fair value through profit or loss. The resulting gain or loss from the re-measurement is recognised in the statement of profit or loss.

For the current quarter ended 31 December 2019, there have been no significant changes to the Group's exposure to credit risk, market risk and liquidity risk from the previous financial period as well as the Group's risk management objectives, policies and processes.

25. Material Litigation

a) Inno Integrasi

A Writ of Summons dated 27 June 2014 was filed by Inno Integrasi Sdn. Bhd. (Plaintiff or Appellant) and served to Kwantas Oil Sdn. Bhd. (KOSB or Respondent), a wholly-owned subsidiary of the Company, whereby the plaintiff claimed for loss of profit of approximately RM66,900,000 for the alleged breached/repudiation of agreements entered into by plaintiff with KOSB in relation to the supply of organic palm wastes together with land leased by KOSB to the plaintiff, and in return, plaintiff will process the organic palm wastes to become bio-organic fertilizer (BF) and re-sell to KOSB. KOSB filed its Statement of Defence and Counterclaim on 5 August 2014.

KOSB has however counterclaimed against the plaintiff for outstanding rental, dismantling of plaintiff's plant and possession of the land being occupied by the plaintiff, and damages and declarative reliefs against the plaintiff.

Based on the court order dated 21 December 2017, the High Court adjudged that the plaintiff's claim is dismissed and shall forthwith pay the defendant costs of RM150,000 subject to payment of allocator fee. The plaintiff has appealed against the High Court's decision in dismissing the RM66,900,000 claims against KOSB and in allowing KOSB's counterclaim. In respect of the above, KOSB has filed a Notice of Motion on 10 January 2019 to strike out the appeal from the plaintiff.

The application to strike out the Record of Appeal as a whole or alternatively part of the Record of Appeal was heard on 19 March 2019. The Court of Appeal has ordered for the Record of Appeal to be amended by the Plaintiff, indicating the objection made by KOSB of the disputed documents. Further, the Court of Appeal has ordered the Plaintiff to give further Supplementary Record of Appeal to include the exhibits, namely the MPOB licenses of the Respondent that were improperly excluded from the Record of Appeal within fourteen (14) days from the hearing day. However, the Court of Appeal did not award any costs.

25. Material Litigation (continued)

a) Inno Integrasi (continued)

The legal counsel is of the opinion that KOSB has a stay of the High Court order and accordingly, no further provision for liability has been made in the interim financial statements.

b) Shanghai Hengtong

(i) A Writ of Summons dated 11 September 2018 was filed by Shanghai Hengtong Energy Development Co. Ltd. ("SHT") and served to Dongma Palm Industries (Zhangjiagang) Co. Ltd. ("DMPI"), a wholly-owned subsidiary of the Company, whereby SHT claimed for loss of profit on termination of contract plus interest of RMB33,718,397.05 (equivalent to approximately RM20,399,630) in respect of a Processing Contract and its Supplemental Agreement (together "the Contract") entered into between SHT and DMPI on 27 September 2017 and 19 December 2017 respectively to process 10,000 MT of palm stearin per month on behalf of SHT by DMPI. The legal proceedings have commenced on 24 October 2018 and DMPI has appointed a solicitor in Shanghai, People's Republic of China to represent DMPI in the legal suit.

Based on the judgement from Shanghai Pudong New Area People's Court ("the Court") received on 24 October 2019, the Court adjudged that DMPI shall compensate SHT RMB24,436,768 (equivalent to approximately RM14,725,596) as damages within 10 days after the judgement takes effect and the Court costs of RMB201,862 (equivalent to approximately RM121,642) shall be borne by DMPI. DMPI had on 18 December 2019 filed an application of appeal to Shanghai No.1 Intermediate Court ("the Intermediate Court") to revoke the entire judgment made by the earlier Court, as well as to rebut SHT's Statement of Claim in whole or to be re-trial.

DMPI had received the statement of judgment relating to the appeal on 14 February 2020, where the Intermediate Court had ordered the appeal to be dismissed and had upheld the decision of the original judgment on 24 October 2019 as decided by the earlier Court. DMPI lost the appeal and had become liable to compensate SHT on litigation sum of RMB24,436,768. The Company had provided for the losses in litigation sum in the current quarter as stated in Note 14, and the payment of litigation sum is expected to be made by March 2020 as advised by the Shanghai solicitor.

(ii) DMPI had on 10 December 2018 filed a Statement of Counterclaim against SHT in respect of the Contract entered into between SHT and DMPI on 27 September 2017 and 19 December 2017 respectively to process 10,000 MT of palm stearin per month. DMPI claimed for RMB26,715,302.55 (equivalent to approximately RM16,184,130) on loss of profits and outstanding receivables due to non-performance of terms and conditions by SHT.

DMPI had on 24 October 2019, received the judgement from the Court regarding the Counterclaim filed on 10 December 2018. The Court adjudged that SHT shall compensate DMPI the processing fee and interest loss amounted to RMB734,690 (equivalent to approximately RM442,724) within 10 days after the judgement takes effect and DMPI should bear the Court costs of RMB164,228 (equivalent to approximately RM98,964). All other claims filed by DMPI in the Statement of Counterclaim were dismissed by the Court. Thereafter, DMPI had on 14 February 2020 submitted an application of appeal to the Intermediate Court to revoke the entire judgment made by the earlier Court, as well as to appeal against the whole Statement of Counter-Claim or to seek for re-trial. The appeal will be heard on 10 March 2020.

25. Material Litigation (continued)

c) Technopalm

A Writ of Summons and Statement of Claim dated 28 February 2019 was filed by Technopalm Resources Sdn. Bhd. ("TRSB") and served to Kwantas Plantations Sdn. Bhd. ("KPSB"), a wholly-owned subsidiary of the Company, whereby TRSB claimed for outstanding sum of work done being RM557,089 plus interest at the rate of 5% per annum calculated from the date of judgement to the date of full payment and to recover other costs incurred for the filing of this Writ. KPSB has filed its Statement of Defence and Counterclaim against TRSB for loss and damages suffered as a result of the unsatisfactory works by TRSB for land and oil palm nursery development on 29 April 2019.

The hearing of the case has yet to be fixed by the court.

26. Dividend

No interim dividend has been declared for the financial period ended 31 December 2019.

27. Loss Per Share

(a) Basic

Basic loss per share amounts are calculated by dividing loss for the period attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Individual Period 3 months ended		***Cumulative Period 6 months ended***	
	31.12.2019	***31.12.2018***	***31.12.2019***	***31.12.2018***
Loss for the period attributable to Owners of the Company (RM'000)	(6,229)	(10,652)	(16,141)	(36,717)
Weighted average number of ordinary shares in issue ('000)	311,678	311,678	311,678	311,678
Basic loss per share (sen)	(2.00)	(3.42)	(5.18)	(11.78)

(b) Diluted

There is no dilution in the earnings per share of the current and previous period end as there are no dilutive potential ordinary shares outstanding at the end of the reporting period.

28. Significant Related Party Transactions

The significant related party transactions set out below were carried out in the normal course of business and on terms and conditions no more materially different from those obtainable in transactions with unrelated parties.

		6 months ended	
		31.12.2019	***31.12.2018***
Name of related parties	***Type of transaction***	***RM'000***	***RM'000***
With companies which have common Directors with the Company and in which certain Directors of the Company have financial interests:			
Lahad Datu Tyres Sdn. Bhd.	Purchase of tyres, batteries and lubricants	(643)	(777)
Fordeco Sdn. Bhd.	Provision of general servicing and supply of spare parts	(2,519)	(3,960)
Petrolmax Borneo Sdn. Bhd.	Purchase of diesel	(4,066)	(4,322)
Bina Segama Sdn. Bhd.	Purchase of lubricants	(350)	(383)
Fordeco Construction Sdn. Bhd.	Construction costs/materials	(1,717)	160
Kwan Ah Hee & Sons Realty Sdn. Bhd.	Rental	(186)	(185)
Miyasa Sdn. Bhd.	Purchase of fresh fruit bunches	(1,509)	(1,508)
Sri Bandaran Sdn. Bhd.	Purchase of fresh fruit bunches	(186)	(523)
Fordeco Plantations Sdn. Bhd.	Purchase of fresh fruit bunches	(875)	(778)
Cindai Development Sdn. Bhd.	Purchase of fresh fruit bunches	(691)	(599)

29. Group Statistics

		Cumulative Period 6 months ended	
	Unit	*31.12.2019*	*31.12.2018*
PLANTATION			
Oil Palm Area			
Mature	*hectare*	16,061	16,121
Immature	*hectare*	3,294	3,404
Total planted area	*hectare*	**19,355**	**19,525**
FFB			
Production	*tonnes*	132,049	143,023
Yield per mature hectare	*tonnes*	8.22	8.87
Average selling price per tonne	*RM*	407	358
MILLS, REFINERY AND OLEOCHEMICAL			
Extraction Rates			
Crude palm oil (CPO)	*%*	21.13	20.65
Palm kernel (PK)	*%*	4.89	5.02
Production			
Crude palm oil (CPO)	*tonnes*	49,060	54,759
Palm kernel (PK)	*tonnes*	11,348	13,311
Oleochemical products	*tonnes*	47,608	23,856
Trading			
Crude palm oil (CPO)	*tonnes*	122,063	96,420
Crude palm kernel oil (CPKO)	*tonnes*	13,500	14,002
Oleochemical products	*tonnes*	53,420	30,080
Average Selling Price (Per Tonne)			
Crude palm oil (CPO)	*RM per Tonne*	2,098	2,078
Crude palm kernel oil (CPKO)	*RM per Tonne*	2,475	3,638
Oleochemical products	*RM per Tonne*	2,599	2,571

30. Authorisation for Issue

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 28 February 2020.