**PERMAJU INDUSTRIES BERHAD**
(Incorporated in Malaysia) Company No. 379057-V

**INTERIM REPORT FOR THE FINANCIAL QUARTER ENDED 30TH JUNE 2018**

--------------------------------------------------------------------------------

*NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30$^{TH}$ JUNE 2018*

*PART A – EXPLANATORY NOTES PURSUANT TO FRS 134*

1. BASIS OF PREPARATION

   The interim financial statements of the Group 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 interim financial statements should be read in conjunction with the audited financial statements for the year ended 31st December 2017. These explanatory notes attached to the 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 year ended 31st December 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

   The financial statements of the Group for the financial period ended 30 June 2018 are prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) Framework. The date of transition to the MFRS Framework was on 1 January 2017.

   The Group has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2017 and throughout all comparable interim periods presented as if these policies had always been in effect. Comparative information in these interim financial statements have been restated to give effect to these changes and the financial impact on the transition from FRS in Malaysia to MFS as disclosed as follows:

   Biological assets
   Prior to adoption of MFRS 141, biological assets are measured at cost less accumulated impairment losses. With the adoption of MFRS 141, the biological assets are measured at fair value less cost to sell. Any changes in fair value less cost to sell of the biological assets are recognized in profit or loss.

   The carrying amount of the biological assets as at 31 December 2016 and 2017 had been stated at fair value less cost to sell as the new carrying amounts were lower than the recoverable amounts when impairment assessments were performed. Therefore, there was no adjustment to be made to restate the biological assets of the Group upon adoption of MFRS 141.

2. SIGNIFICANT ACCOUNTING POLICIES ( Cond.t)

MFRS 9: Financial Instruments

MFRS 9 replaces FRS 139: Financial Instruments: Recognition and Measurement bringing together three aspects of the accounting for financial instruments: (a) classification and measurement; (b) impairment; and (c) hedge accounting. MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” model. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The adoption of this new MFRS 9 have not resulted in any significant impact on the financial statement of the Group.

MFRS 15: Revenue from Contracts with Customers

Upon adoption of MFRS 15, the Group recognises the revenue from contracts with customers when or as the Group transfers goods or services to a customer, measured at the amount to which the Group expects to be entitled, according to the term and condition stipulated in the contracts with customers. Depending on whether certain criteria are met, revenue is recognised over time, in a manner that depicts the Group’s performance; or at a point in time, when control of the goods or services is transferred to the customers. The adoption of this new MFRS 15 have not resulted in any material impact on the financial statements of the Group.

3. AUDIT REPORT

The audit report of the Group’s annual financial statements for the year ended 31st December 2017 was not subject to any qualification.

4. SEASONAL OR CYCLICAL FACTORS OF INTERIM OPERATIONS

The Group’s business operations for the period ended 30th June 2018 have not been materially affected by seasonal or cyclical factors, other than the continued low in property sales. Also, the car brands we distribute had mixed performance in their market share in the Total Industry Volume (TIV) compared to the corresponding quarter last year.

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

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the financial quarter ended 30th June 2018.

6. EFFECTS OF CHANGES IN ESTIMATES

There were no changes in estimates that have a material effect in the financial quarter ended 30th June 2018.

7. CHANGES IN DEBTS AND EQUITY SECURITIES

During the current quarter ended 30th June 2018, there were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities. The total number of shares bought back and held as treasury shares as at 30th June 2018 was 8,672,500 shares. The shares bought back are being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

8. DIVIDEND PAYMENT

There was no dividend paid for the current quarter and financial period ended 30th June 2018.

9. CARRYING AMOUNT OF REVALUED ASSETS

The Group has performed valuation updates on its leasehold land during the last financial year based on valuations carried out by an independent professional valuer on an open market value basis.

10. SUBSEQUENT EVENTS

There were no material events subsequent to the interim financial report under review as at the date of this announcement.

11. OPERATING SEGMENTS

The Group has four reportable segments, namely automotive, timber, property development and others which involved in Group-level corporate services, treasury functions and investments in marketable securities, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately.

(a) Information about reportable segments

For the period ended 30.06.2018

| | Automotive | | Timber | | Property Development | | Others | | Adjustments and elimination | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30.06.18 | 30.06.17 | 30.06.18 | 30.06.17 | 30.06.18 | 30.06.17 | 30.06.18 | 30.06.17 | 30.06.18 | 30.06.17 | 30.06.18 | 30.06.17 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| External revenue | 33,296 | 27,796 | - | - | 2,269 | 3,909 | - | - | - | - | 35,565 | 31,705 |
| Inter segment revenue | - | - | - | - | - | - | - | - | - | - | - | - |
| Segment profit/(loss) | (1,138) | (1,486) | (36) | 5 | (1,153) | (940) | (967) | (940) | (143) | (495) | (3,437) | (3,856) |
| Segment assets | 14,426 | 13,337 | 36,298 | 35,811 | 85,993 | 81,717 | 106,061 | 107,388 | (33,822) | (34,211) | 208,956 | 204,042 |

## 12. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current quarter ended 30th June 2018.

## 13. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets of the Group since the last statement of financial position as at 30th June 2018.

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

## 14. REVIEW OF PERFORMANCE

a. Quarter Comparison

The Group's revenue for the current quarter of RM20.59 million is higher by RM1.93 million than the corresponding year financial quarter of RM18.66 million due to increase in revenue from the Automotive Division by RM3.06 million off-set by a decrease in revenue of the Property Development Division by RM1.13 million.

The Group registered a pre-tax loss of RM985,000 for the current quarter against the corresponding year financial quarter pre-tax loss of RM1.61 million. The Group's pre-tax loss was mainly attributed to the pre-tax loss from the Property Development Division of RM647,000 against pre-tax loss of RM467,000 in the corresponding quarter, and pre-tax loss of the Automotive Division of RM20,000 in the current quarter against pre-tax loss of RM398,000 in the corresponding quarter.

During the current quarter, the Automotive Division experienced higher sales due to the tax holiday period* and exceeded the sales target, thus receiving additional incentives. However, the property market for the Property Division continued to be soft.

* Tax holiday period refers to the 3-month period from 1 June 2018 where the Malaysian Government had declared zero-rated Goods and Services Tax (GST) and the implementation Sales and Services Tax (SST) from 1 September 2018. The GST was repealed on 8 August 2018.

b. Year-to-date Comparison

The Group recorded revenue of RM35.57 million and a pre-tax loss of RM3.48 million for the period ended 30th June 2018 against revenue of RM31.71million and pre-tax loss of RM3.86million in the corresponding period ended 30th June 2017. The Group's loss before taxation for the period ended 30th June 2018 of RM3.48 million was mainly attributed to the pre-tax loss of the Property Development Division of RM1.15 million and the Automotive Division pre-tax loss of RM1.13. The Company pre-tax loss of RM966,000 also contributed to the Group loss before taxation for the period ended 30th June 2018.

15. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's current quarter revenue of RM20.59million against the preceding quarter revenue of RM14.97 million, was mainly due to lower automotive sales off-set by the increase in property sales. The Group's loss before taxation for the current quarter of RM985,000 was mainly attributed to the loss before taxation of Automobile Division of RM20,000 and loss before taxation of Property Development Division of RM647,000. Comparatively, in the preceding quarter the loss before taxation of RM2.49 million was mainly attributed to the loss before taxation of Automobile Division of RM1.12 million and loss before taxation of Property Development Division of RM506,000.

During the current quarter, the Automotive Division experienced higher sales due to the tax holiday period* and exceeded the sales target, thus receiving additional incentives. However, the property market for the Property Division continued to be soft.

16. BUSINESS PROSPECTS

The impact of SST is expected to be unfavourable to the automobile sector as the prices of cars are expected to rise. However, there is no impact on the property sector due to the exemptions given to the construction and property development industry.

In addition to the above, the rights issue (refer to Note 21) is expected to provide additional working capital which will be positive for the Group operations moving forward. Barring any unforeseen circumstances, the Board expect the results of the Group to be satisfactory.

17. PROFIT FORECAST OR PROFIT GUARANTEE

This is not applicable to the financial quarter under review.

18. INCOME TAX BENEFIT

| | 3 months ended | | 6 months ended | |
|---|---|---|---|---|
| | 30.06.2018 | 30.06.2017 | 30.06.2018 | 30.06.2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Income tax | - | - | - | - |
| Under/(Over) provision in previous year | - | - | - | - |
| Deferred tax | (20) | (19) | (40) | (39) |
| | (20) | (19) | (40) | (39) |

## 19. LOSS FOR THE PERIOD

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

| | 3 months ended | | 6 months ended | |
|---|---|---|---|---|
| | 30.06.2018 | 30.06.2017 | 30.06.2018 | 30.06.2017 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Interest income | (1) | (169) | (1) | (227) |
| Finance costs | 288 | 465 | 566 | 1,047 |
| Depreciation and amortization | 266 | 286 | 524 | 945 |
| Impairment for and write off of Receivables | 300 | - | 140 | (160) |
| (Gain)/Loss on disposal of property, plant and equipment | - | (8) | - | (8) |

## 20. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There were no sales of unquoted investments and properties for the financial quarter under review.

## 21. CORPORATE PROPOSALS

At the Extraordinary General Meeting held on 29 June 2018, the shareholders of the Company have approved the Proposed renounceable rights issue of up to 936,309,855 new Irredeemable Convertible Preference Shares in Permaju ("ICPS") ("Rights ICPS") at an issue price of RM0.05 per Rights ICPS together with up to 93,630,985 free detachable Warrants ("Warrants") on the basis of 10 Rights ICPS together with 1 free Warrant for every 2 existing ordinary shares in Permaju held by the entitled shareholders of Permaju ("Proposed Rights Issue of ICPS with Warrants") and the Proposed Settlement of debt owing to Tan Sri Datuk Chai Kin Kong and Dato' Chua Tiong Moon in the aggregate sum of RM22,248,918 to be fully satisfied via the issuance of 444,978,360 ICPS ("Settlement ICPS") at an issue price of RM0.05 per Settlement ICPS ("Proposed Settlement").

## 22. LOANS AND BORROWINGS

| | As at 30.06.2018 RM'000 | As at 30.06.2017 RM'000 |
|---|---|---|
| Current | | |
| - Bank overdrafts | 1,997 | 3,265 |
| - Obligation under finance leases | 239 | 255 |
| - Bank loans | 5,592 | - |
| | 7,828 | 3,520 |
| Non-current | | |
| - Obligation under finance leases | 81 | 301 |
| - Bank loans | - | 13,694 |
| | 81 | 13,995 |

The borrowings are secured.

## 23. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at the date of this announcement.

## 24. CHANGES IN MATERIAL LITIGATION

There were no material changes in the following litigation where:

David Shen I-Tan, practicing under Arkitek Konsult Sabah (“Claimant”), had on 22 November 2013 initiated an arbitration proceeding against Hardie, for wrongful termination of its services as an architect. The Claimant is claiming for fees with interest as well as loss of income, amounting to RM11,400,000.00 (“Breach of Contract Arbitration”).

The Claimant had also on 17 November 2014 initiated an arbitration proceeding against Permaju for tortious conduct by Permaju in inducing Hardie to breach a contract of services against the Claimant. The Claimant is claiming against Permaju for damages comprising of (a) RM2,590,724.04, being the outstanding professional fees allegedly due to the Claimant and (b) RM9,841,702.83 together with interest and cost for loss of income for balance of work prematurely terminated (“Permaju Arbitration”).

In respect of both the above-mentioned arbitration proceedings, the parties have agreed that the issue of liability for the Breach of Contract Arbitration will be determined first before the Permaju Arbitration. In this respect, no award will be made in relation to the Breach of Contract Arbitration on the quantum payable to either the Claimant or the Respondent at this stage. In the event that Hardie is successful in respect of the Breach of Contract Arbitration, then the Permaju Arbitration will come to an end.

On 21 May 2018, Hardie's solicitors have informed Hardie that the arbitrator has given a partial award on the Breach of Contract Arbitration ("Partial Award") and held that Hardie had wrongfully terminated the Claimant's for its services and has awarded costs in the cause in the final award to the Claimant. Hardie's solicitors have confirmed that there has been no award made by the arbitrator in respect of the quantum of damages payable to the Claimant in relation to the Breach of Contract Arbitration. Hardie's solicitors also confirmed that there are no directions from the arbitrator in respect of the Permaju Arbitration.

Hardie's solicitors are of the view that there are reasonable chances of the Partial Award being set aside since there are errors of law in issues of jurisdiction. Hardie's solicitors have filed an application to set aside the Partial Award at the Kota Kinabalu High Court and the Court had directed for Clarification by 25 October 2018.

## 25. DIVIDEND PAYABLE

No interim ordinary dividend has been declared for the financial period ended 30$^{th}$ June 2018 (30th June 2017: Nil)

## 26. LOSS PER ORDINARY SHARE

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of ordinary shares in issue during the period.

| | 3 months ended | | 6 months ended | |
|---|---|---|---|---|
| | 30.06.2018 | 30.06.20017 | 30.06.2018 | 30.06.20017 |
| Net loss for the period (RM'000) | (751) | (1,400) | (3,036) | (3,441) |
| Weighted average number of ordinary shares in issue ('000) | 187,262 | 187,262 | 187,262 | 187,262 |
| Basic earnings/(loss) per share (sen) | (0.40) | (0.75) | (1.62) | (1.84) |

The basic loss per share is not subject to dilution as there is no dilutive effect of any potential ordinary shares.

## 27. REALISED AND UNREALISED LOSSES DISCLOSURE

| | As at 30.06.2018 RM'000 | As at 31.12.2017 RM'000 |
|---|---|---|
| Total retained profits / (accumulated losses) of Permaju Industries Berhad and its subsidiaries : | | |
| - Realised | (99,913) | (96,877) |
| - Unrealised | (7,026) | (7,026) |
| Total group accumulated losses as per consolidated accounts | (106,939) | (103,903) |

## 28. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 24 August 2018.