



**DIALOG GROUP BERHAD** (178694-V)  
(Incorporated in Malaysia)

Interim Financial Statements  
For The Financial Period Ended  
31 December 2016

## INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS  
FOR THE PERIOD ENDED 31 DECEMBER 2016

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	3 MONTHS ENDED		6 MONTHS ENDED	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RM'000	RM'000	RM'000	RM'000
<b>Revenue</b>	856,783	639,626	1,510,334	1,175,991
Operating expenses	(781,010)	(553,737)	(1,384,076)	(1,033,466)
Other operating income	17,499	6,575	44,677	24,654
Share of profit after tax of equity-accounted joint ventures and associates	25,067	15,008	50,138	27,068
Finance costs	(6,803)	(6,620)	(13,881)	(12,837)
<b>Profit before tax</b>	111,536	100,852	207,192	181,410
Tax expense	(18,431)	(20,486)	(32,781)	(38,498)
<b>Profit for the period</b>	<u>93,105</u>	<u>80,366</u>	<u>174,411</u>	<u>142,912</u>
<b>Profit for the period attributable to:</b>				
Owners of the parent	91,358	78,006	172,694	138,078
Non-controlling interests	1,747	2,360	1,717	4,834
	<u>93,105</u>	<u>80,366</u>	<u>174,411</u>	<u>142,912</u>
Basic earnings per ordinary share of RM0.10 each (sen) (Note B13)	<u>1.71</u>	<u>1.52</u>	<u>3.26</u>	<u>2.70</u>
Diluted earnings per ordinary share of RM0.10 each (sen) (Note B13)	<u>1.70</u>	<u>1.48</u>	<u>3.23</u>	<u>2.64</u>

(The Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the audited financial statements for the year ended 30 June 2016 and the accompanying explanatory notes attached to the Interim Financial Statements.)

## INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE  
INCOME FOR THE PERIOD ENDED 31 DECEMBER 2016

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	3 MONTHS ENDED		6 MONTHS ENDED	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	RM'000	RM'000	RM'000	RM'000
<b>Profit for the period (Note B14)</b>	93,105	80,366	174,411	142,912
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss</b>				
Foreign currency translations	20,937	(15,561)	33,643	63,027
Cash flow hedge	2,901	(10,395)	(293)	(3,635)
Share of other comprehensive income of a joint venture	27,706	(4,567)	29,492	36,601
<b>Other comprehensive income for the period</b>	51,544	(30,523)	62,842	95,993
<b>Total comprehensive income for the period</b>	144,649	49,843	237,253	238,905
<b>Total comprehensive income attributable to:</b>				
Owners of the parent	137,764	48,671	229,945	226,912
Non-controlling interests	6,885	1,172	7,308	11,993
	144,649	49,843	237,253	238,905

(The Condensed Consolidated Statement of Other Comprehensive Income should be read in conjunction with the audited financial statements for the year ended 30 June 2016 and the accompanying explanatory notes attached to the Interim Financial Statements.)

## INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016

	NOTE	31/12/2016 RM'000	30/06/2016 RM'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		589,840	582,810
Development of tank terminals		263,724	250,946
Intangible assets		159,729	155,283
Investments in joint ventures and associates	B11	1,726,692	1,290,649
Other investments		4,585	4,732
Deferred tax assets		72,494	61,233
		<u>2,817,064</u>	<u>2,345,653</u>
<b>CURRENT ASSETS</b>			
Inventories		88,015	86,095
Trade and other receivables	A16	811,282	746,377
Current tax assets		17,431	13,778
Cash and cash equivalents	A17	1,081,314	944,383
		<u>1,998,042</u>	<u>1,790,633</u>
<b>TOTAL ASSETS</b>		<u><u>4,815,106</u></u>	<u><u>4,136,286</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital		537,233	526,949
Treasury shares		(3,625)	(3,625)
Reserves		2,177,151	1,891,413
		2,710,759	2,414,737
Non-controlling interests		71,879	68,618
<b>TOTAL EQUITY</b>		<u>2,782,638</u>	<u>2,483,355</u>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	B7	747,236	713,537
Deferred tax liabilities		6,498	4,871
		<u>753,734</u>	<u>718,408</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	A18	920,639	741,661
Borrowings	B7	309,558	161,545
Current tax liabilities		48,537	31,317
		<u>1,278,734</u>	<u>934,523</u>
<b>TOTAL LIABILITIES</b>		<u>2,032,468</u>	<u>1,652,931</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>4,815,106</u></u>	<u><u>4,136,286</u></u>
<b>Net assets per share attributable to owners of the parent (sen)</b>		<u>51.1</u>	<u>46.7</u>

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the year ended 30 June 2016 and the accompanying explanatory notes attached to the Interim Financial Statements.)

INTERIM FINANCIAL REPORT

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 31 DECEMBER 2016

	Attributable to owners of the parent						Non - controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Treasury shares RM'000	Share premium RM'000	Other reserves RM'000	Retained earnings RM'000	Total RM'000		
<b>Balance as at 1 July 2016</b>	526,949	(3,625)	571,542	220,089	1,099,782	2,414,737	68,618	2,483,355
Total comprehensive income for the period	-	-	-	57,251	172,694	229,945	7,308	237,253
Appropriation :								
Final dividend for FY2016	-	-	-	-	(64,203)	(64,203)	-	(64,203)
Share options vested under ESOS	-	-	-	13,933	-	13,933	568	14,501
Share options exercised	2,679	-	29,244	(6,063)	-	25,860	(1,144)	24,716
Warrants exercised	7,605	-	114,837	(31,947)	-	90,495	-	90,495
Share issue expenses	-	-	(8)	-	-	(8)	-	(8)
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	(3,471)	(3,471)
<b>Balance as at 31 December 2016</b>	<u>537,233</u>	<u>(3,625)</u>	<u>715,615</u>	<u>253,263</u>	<u>1,208,273</u>	<u>2,710,759</u>	<u>71,879</u>	<u>2,782,638</u>
<b>Balance as at 1 July 2015</b>	508,329	(3,625)	318,279	237,025	919,749	1,979,757	66,891	2,046,648
Total comprehensive income for the period	-	-	-	88,834	138,078	226,912	11,993	238,905
Appropriation :								
Final dividend for FY2015	-	-	-	-	(62,239)	(62,239)	-	(62,239)
Share options vested under ESOS	-	-	-	7,032	-	7,032	318	7,350
Share options exercised	3,372	-	32,886	(8,684)	-	27,574	(950)	26,624
Warrants exercised	7,850	-	118,543	(32,978)	-	93,415	-	93,415
Share issue expenses	-	-	(3)	-	-	(3)	-	(3)
Acquisition of shares from non-controlling interests	-	-	-	-	-	-	(1,134)	(1,134)
Disposal of shares in a subsidiary	-	-	-	-	-	-	(4,480)	(4,480)
<b>Balance as at 31 December 2015</b>	<u>519,551</u>	<u>(3,625)</u>	<u>469,705</u>	<u>291,229</u>	<u>995,588</u>	<u>2,272,448</u>	<u>72,638</u>	<u>2,345,086</u>

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the year ended 30 June 2016 and the accompanying explanatory notes attached to the Interim Financial Statements.)

**INTERIM FINANCIAL REPORT**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE PERIOD ENDED 31 DECEMBER 2016**

	<b>6 MONTHS ENDED</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	207,192	181,410
Adjustments for :		
Depreciation and amortisation expenses	39,603	28,577
Net interest (income)/expenses	(2,395)	3,729
Share of results of joint ventures and associates	(50,138)	(27,068)
Share options vested under ESOS	14,301	7,150
Other non-cash items	(22,520)	(7,565)
Operating profit before working capital changes	186,043	186,233
Changes in working capital :		
Net change in inventories and receivables	(58,909)	159,945
Net change in payables	172,674	107,398
<b>Cash from operations</b>	<b>299,808</b>	<b>453,576</b>
Dividend and interest received	30,681	20,834
Tax paid	(30,657)	(52,576)
Tax refunded	2,217	1,004
<b>Net cash from operating activities</b>	<b>302,049</b>	<b>422,838</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of additional shares from non-controlling interests	(3,471)	(1,134)
Additions of intangible assets	(21,295)	(32,380)
Development of tank terminals	(12,777)	(6,298)
Investments in joint ventures and associates	(371,817)	(245,470)
Net change in deposits with licensed banks	(4,195)	192
Net cash on disposal of a subsidiary	-	7,048
Proceeds from disposal of property, plant and equipment	27,883	1,998
Proceeds from disposal of other investment	554	-
Purchase of property, plant and equipment	(12,919)	(21,872)
<b>Net cash used in investing activities</b>	<b>(398,037)</b>	<b>(297,916)</b>



**INTERIM FINANCIAL REPORT**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE PERIOD ENDED 31 DECEMBER 2016 (CONT'D)**

	<b>6 MONTHS ENDED</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	(13,111)	(7,905)
Dividend paid	(64,203)	(62,239)
Net drawdown/(repayment) of bank borrowings	176,921	(80,885)
Proceeds from issuances of shares	115,211	120,039
Share issue expenses	(8)	(3)
<b>Net cash from/(used in) financing activities</b>	<u>214,810</u>	<u>(30,993)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	118,822	93,929
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>		
As previously reported	943,125	865,919
Effects of exchange rate changes on cash and cash equivalents	13,259	20,211
	<u>956,384</u>	<u>886,130</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (Note A17)</b>	<u><u>1,075,206</u></u>	<u><u>980,059</u></u>

(The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited financial statements for the year ended 30 June 2016 and the accompanying explanatory notes attached to the Interim Financial Statements.)

## INTERIM FINANCIAL REPORT

## NOTES TO THE INTERIM FINANCIAL REPORT

## A EXPLANATORY NOTES PURSUANT TO MFRS 134

## A1 Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the reporting requirements of Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 Main Market Listing Requirements (“Listing Requirements”) of the Bursa Malaysia Securities Berhad (“Bursa Malaysia”). These interim financial statements also comply with IAS 34: Interim Financial Reporting issued by the International Accounting Standards Board.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016. The 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 financial year ended 30 June 2016.

## A2 Changes in accounting policies

The audited financial statements of the Group for the year ended 30 June 2016 were prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) framework issued by MASB. As per requirements under MFRS, the significant accounting policies adopted in preparing these interim financial statements are consistent with those of the audited financial statements for the year ended 30 June 2016 except as discussed below:

As of 1 July 2016, the Group has adopted the revised MFRSs and Amendments of MFRSs that have been issued by MASB as listed below:

MFRSs, Amendments to MFRSs		Effective for financial year beginning on or after
Amendments to MFRS 10, 12 and 128	<i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
Amendments to MFRS 101	<i>Disclosure Initiative</i>	1 January 2016
Amendments to MFRS 116 and 138	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to MFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to MFRS 127	<i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to MFRSs	<i>Annual Improvements to 2012 - 2014 Cycle</i>	1 January 2016

The Group has also early adopted the Amendments to MFRS 10 and 128 on *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* that has been issued by MASB.



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**INTERIM FINANCIAL REPORT**

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**A EXPLANATORY NOTES PURSUANT TO MFRS 134 – CONT'D**

**A3 Auditors' report of preceding annual audited financial statements**

The auditors' report on preceding year's audited financial statements was not subject to any qualification.

**A4 Seasonal or cyclical factors**

The Group's operations are not affected by seasonal or cyclical factors.

**A5 Unusual items affecting assets, liabilities, equity, net income or cash flows**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the current financial period ended 31 December 2016.

**A6 Material changes in estimates**

There were no changes in estimates of amounts reported in prior financial year, which have a material effect in the current financial period.

**A7 Debt and equity securities**

During the current financial period, the issued and paid-up share capital was increased from RM526,948,599 to RM537,232,998 by the allotment of 102,843,992 new ordinary shares of RM0.10 each pertaining to the following:

- i. exercise of 26,798,344 share options under the Employees' Share Option Scheme; and
- ii. exercise of 76,045,648 warrants.

There were no other issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial period.

**A8 Dividends paid**

A final dividend of 1.2 sen per ordinary share of RM0.10 each, amounting to RM64,203,102 in respect of financial year ended 30 June 2016 was paid on 20 December 2016.

**A9 Property, plant and equipment**

There is no revaluation of property, plant and equipment brought forward from the previous audited financial statements.

**A10 Material events subsequent to the end of the interim period**

There were no material events subsequent to the current financial period ended 31 December 2016 and up to the date of this report, which is likely to substantially affect the profits of the Group.

**INTERIM FINANCIAL REPORT**

**A EXPLANATORY NOTES PURSUANT TO MFRS 134 - CONT'D**

**A11 Operating segments**

The Group is principally involved in providing integrated technical services to the petroleum and petrochemical industry in Malaysia and other areas of the world. Its operating segments are presented based on the geographical location of its customers. The performance of each segment is measured based on profit before tax as included in the internal management report reviewed by chief operating decision maker.

The Group's operating segments for the financial period ended 31 December 2016 is as follows:

	<b>Malaysia</b>	<b>Singapore</b>	<b>Middle</b>	<b>Other</b>	<b>Total</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>East</b>	<b>Countries</b>	<b>RM'000</b>
			<b>RM'000</b>	<b>RM'000</b>	
<b>Segment profits</b>	156,505	24,524	17,382	8,781	207,192
<i>Included in the measure of segment profits are:</i>					
<i>Revenue from external customers</i>	1,050,538	89,249	116,858	253,689	1,510,334
<i>Inter-segment revenue</i>	2,909	6,020	275	4,239	13,443
<i>Depreciation and amortisation</i>	26,679	1,358	5,294	6,272	39,603
<i>Interest expense</i>	10,168	49	1,942	952	13,111
<i>Interest income</i>	14,708	574	112	112	15,506
<i>Share of results of joint ventures and associates</i>	51,362	52	-	(1,276)	50,138
<b>Segment assets</b>	3,671,951	318,911	355,275	396,475	4,742,612
Deferred tax assets					72,494
<b>Total assets</b>					<b>4,815,106</b>
<i>Included in the measure of segment assets are:</i>					
<i>Investments in joint ventures and associates</i>	1,719,681	3,717	-	3,294	1,726,692
<i>Additions to non-current assets:</i>					
- <i>Property, plant &amp; equipment</i>	4,922	1,792	649	5,556	12,919
- <i>Intangible assets</i>	21,026	7	-	262	21,295
- <i>Development of tank terminals</i>	12,777	-	-	-	12,777
- <i>Joint ventures and associates</i>	371,817	-	-	-	371,817
<b>Segment liabilities</b>	1,702,593	66,230	131,627	125,520	2,025,970
Deferred tax liabilities					6,498
<b>Total liabilities</b>					<b>2,032,468</b>

**INTERIM FINANCIAL REPORT**

**A EXPLANATORY NOTES PURSUANT TO MFRS 134 – CONT'D**

**A12 Changes in the composition of the Group**

In October 2016, Dialog (Labuan) Ltd (“DLL”), an indirect wholly owned subsidiary, had acquired the remaining 40% equity interest, representing 800,000 ordinary shares of USD1.00 each in Dialog IPS Marine (Labuan) Ltd (“DIPSM”) from Integrated Petroleum Services Sdn Bhd Limited (“IPS”) for a total cash consideration of USD830,457 (approximately equivalent to RM3,471,310). Pursuant to that, DLL's equity investment in DIPSM increased from 60% to 100% and DIPSM became a wholly owned subsidiary of Dialog Group Berhad (“DIALOG”).

There were no other changes in the composition of the Group during the current financial period.

**A13 Commitments**

	<b>31/12/2016</b>
	<b>RM'000</b>
i) Capital commitments	
Capital expenditure in respect of property, plant and equipment :	
- approved but not contracted for	7,200
- contracted but not provided for	1,100
	<u>8,300</u>
Commitments of the Group in respect of tank terminal business	<u>219,600</u>
Commitments of the Group in respect of upstream business	<u>89,800</u>
ii) Operating lease commitments	
a) The Group as lessee	
- not later than one year	7,957
- later than one year and not later than five years	8,549
- after five years	13,029
	<u>29,535</u>
b) The Group as lessor	
- not later than one year	1,650
- later than one year and not later than five years	114
	<u>1,764</u>

**A14 Changes in contingent liabilities and contingent assets**

The Company provides corporate guarantees up to a total amount of RM1,244.8 million (as at 30.06.2016: RM1,153.9 million) to licensed banks for banking facilities granted to certain subsidiaries. Consequently, the Company is contingently liable for the amounts of banking facilities utilised by these subsidiaries totalling RM440.4 million (as at 30.06.2016: RM364.9 million).

The Company has also provided a sponsor's undertaking to financial institutions for the provision of cash flow deficiency support of SGD169.1 million, equivalents to RM524.3 million (as at 30.06.2016: SGD181.6 million, equivalent to RM543.1 million) for project financing secured by a joint venture.

**INTERIM FINANCIAL REPORT**

**A EXPLANATORY NOTES PURSUANT TO MFRS 134 – CONT'D**

**A15 Significant related party transactions**

Significant related party transactions which were entered into on agreed terms and prices for the current financial period 31 December 2016 are set out below. The relationship of the related parties are disclosed in the audited financial statements for the financial year ended 30 June 2016.

	<b>6 MONTHS ENDED 31/12/2016 RM'000</b>
Transactions with joint ventures and associate:	
Dividend income	16,500
Interest income	7,142
Subcontract works received	174,166
Purchases and cost of services rendered	(1,766)
Tank rental and related expenses	(1,412)
Transactions with related parties:	
Provision of IT and related services	2,446
Rental of office premises	274
	<u>274</u>

**A16 Trade and other receivables**

	<b>31/12/2016 RM'000</b>
Amounts due from customers for contract works	387,426
Trade receivables	312,384
Other receivables, deposits and prepayments	40,483
Amounts due from joint ventures and associates (trade)	70,989
	<u>70,989</u>
	<u>811,282</u>

As at date of this report, the Group has subsequently collected a total of RM134 million representing 43% of the total outstanding trade receivables.

**A17 Cash and cash equivalents**

	<b>31/12/2016 RM'000</b>
Deposits, cash and bank balances	1,081,314
Deposits, cash and bank balances pledged to licensed banks	(6,108)
	<u>(6,108)</u>
	<u>1,075,206</u>

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**INTERIM FINANCIAL REPORT**

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**A EXPLANATORY NOTES PURSUANT TO MFRS 134 – CONT'D****A18 Trade and other payables**

	<b>31/12/2016</b>
	<b>RM'000</b>
Amounts due to customers for contract works	73,428
Trade payables	752,366
Accruals and other payables	87,218
Amounts due to joint ventures and associates	1,552
Hedge derivative liabilities	6,075
	<hr/>
	920,639
	<hr/> <hr/>

**A19 Employees' Share Option Scheme ("ESOS")**

The Company has implemented an ESOS scheme to attract and retain qualified and experienced employees. The scheme was approved by the shareholders at an Extraordinary General Meeting held on 25 July 2007 and shall be in force for a period of ten years until 29 July 2017.

In compliance with Malaysian Financial Reporting Standard, MFRS 2 on Share-based payment, a total ESOS cost for share options amounted to RM14,301,000 was charged to statement of profit or loss for the current financial period (Q2FY2016: RM7,150,000).

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## INTERIM FINANCIAL REPORT

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### **B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA**

#### **B1 Performance analysis**

The Group closed its 2nd quarter ended 31st December 2016 with another strong financial performance. Revenue for the current reporting quarter increased by 34.0 % to RM856.8 million while net profit after tax rose by 15.9% to RM93.1 million against corresponding quarter last year. Year to date revenue and net profit after tax for the current financial year were RM1.5 billion and RM174.4 million, higher by 28.4% and 22.0%, respectively against last year.

The better financial performance achieved in the current reporting quarter was mainly attributable to higher contributions from the Group's joint ventures in particular from Pengerang Independent Terminals which has fully leased out its storage capacity and secured better storage rates. The Group's share of joint ventures results for the current quarter of RM25.1 million was 67.0% higher compared to RM15.0 million recorded in the corresponding quarter last year.

The Malaysia operation remained busy during the current financial quarter with engineering, construction and fabrication activities from various on-going projects such as the Pengerang Deepwater Terminal Phase 2, Jetty Topside works for Samsung in Pengerang and the construction of plasticizer plant for UPC Chemicals in Kuantan. However, the higher revenue recorded from these activities was partially offset by the lower sales in specialist products and services. This explained the slight increase in net profit after tax contribution from Malaysia operation for the current financial quarter against same period last year.

The Group's International operation remained challenging this period. The slower upstream activities had resulted to lower sales in specialist products and services. This had resulted to a drop in net profit after tax contribution from International operation in the current financial quarter against same quarter last year.

#### **B2 Variation of results against preceding quarter**

The Group's profit before tax for the current financial quarter of RM111.5 million was 16.5% higher against RM95.7 million recorded in the preceding quarter. This was in tandem with the higher revenue recorded in the current financial period.

#### **B3 Prospects**

As a leading integrated technical services provider to the upstream, midstream and downstream sectors in the oil, gas and petrochemical industry, DIALOG remains confident that its business model is well structured and can withstand the current oil price volatility and currency movements. The Group's financial track record has proven that DIALOG's business is well risk-managed and sustainable.

The Group will also review its resources to ensure a more efficient and effective distribution, and to further improve the skills of its manpower. At the same time, the Group will continue to look for new opportunities to enhance its recurring income streams.

With the on-going operations of Pengerang Deepwater Terminal Phase 1 and current construction of Phase 2, the Group is now working towards securing new potential partners for subsequent phases, which will include the development of more petroleum and petrochemical storage terminals. Further development of the Pengerang Deepwater Terminal will provide more opportunities for the Group's engineering, construction, fabrication and plant maintenance services.

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**INTERIM FINANCIAL REPORT**


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**B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D**
**B3 Prospects – cont'd.**

The Group is also developing an industrial estate with a land area of approximately 170 acres that would support the development of further downstream petroleum and petrochemical industries in Pengerang, Johor.

In the upstream sector, the Group is on the lookout for viable production assets, which may become available for possible acquisition.

Barring any unforeseen circumstances, the Group is optimistic that it will continue to deliver a healthy performance for the financial year ending 30 June 2017.

**B4 Profit forecast and profit guarantee**

The Group did not announce any profit forecast nor profit guarantee for the current financial period.

**B5 Taxation**

	<b>INDIVIDUAL PERIOD</b>	<b>CUMULATIVE PERIOD</b>
	<b>3 MONTHS ENDED 31/12/2016 RM'000</b>	<b>6 MONTHS ENDED 31/12/2016 RM'000</b>
Current tax	29,284	44,517
Deferred tax	(10,818)	(10,343)
Over provision in prior years	(35)	(1,393)
Total tax expense	<u>18,431</u>	<u>32,781</u>
Effective tax rate on profit before tax excluding share of results of joint ventures and associates	<u>21.3%</u>	<u>20.9%</u>

## INTERIM FINANCIAL REPORT

**B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D****B6 Status of corporate proposals**

There is no corporate proposal announced but not completed as at date of this report.

**B7 Borrowings and debt securities**

As at 31 December 2016, the Group's borrowings were denominated in the following currencies:

	FC'000	RM'000
Short term borrowings:		
Secured:		
New Zealand Dollars	501	1,569
Ringgit Malaysia	-	20,016
Unsecured:		
Euro	499	2,355
New Zealand Dollars	3,786	11,853
Ringgit Malaysia	-	57,000
Saudi Riyal	15,000	17,932
Sterling Pounds	1,463	8,061
Thai Baht	10,500	1,314
United States Dollar	42,196	189,458
		<u>309,558</u>
Long term borrowings:		
Secured:		
New Zealand Dollars	4,080	12,773
Ringgit Malaysia	-	71,200
United States Dollar	24,283	109,031
Unsecured:		
New Zealand Dollars	1,453	4,548
Ringgit Malaysia	-	466,000
Saudi Riyal	70,000	83,684
		<u>747,236</u>
		<u><u>1,056,794</u></u>

The borrowings of the Group are mainly to part finance its investment in tank terminals and logistic business. Included in the borrowings for the current financial period is RM737.3 million (30.06.2016: RM545.7 million) obtained under Islamic financing facilities.



## INTERIM FINANCIAL REPORT

### B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D

#### B8 Material litigation

As at the date of this announcement, there was no material litigation since the last audited annual statement of financial position except for the following:-

a) Notice of Arbitration between Tanjung Langsat Port Sdn Bhd (“TLP”) and Dialog E & C Sdn Bhd (“DECSB”)

DECSB, a wholly owned subsidiary of the Company had on 9 April 2014, received a Notice of Arbitration dated 7 April 2014 from TLP for arbitral proceedings pursuant to the provisions of the Engineering, Procurement, Construction and Commissioning Contract dated 18 October 2006 (“EPCC Contract”) and a Settlement Agreement dated 13 May 2011. The arbitration has been referred to the Kuala Lumpur Regional Centre for Arbitration.

TLP and DECSB entered into the EPCC Contract for the engineering, procurement, construction and commissioning of a 100,000 cubic metres oil terminal project (“Facility”) at Tanjung Langsat Port, Johor, Malaysia for a contract price of RM89.5 million. The terminal commenced operations after DECSB had completed the project and in accordance with the agreed scope of the contract, which also saw handover of the completed project to TLP. However, there was an unfortunate fire incident that took place at the terminal on 17 August 2008 leading to TLP's Notice of Arbitration.

TLP is claiming that the fire incident was caused by DECSB's breaches of its obligations under the EPCC Contract and alleging that it is entitled to the following sums which TLP had further amended its claim (less the sum of RM17 million being the settlement sum received by TLP from its insurers) as follows:

1. RM22,431,934.40 for repair and reconstruction costs of the Facility incurred by TLP;
2. RM2,291,596.71 for repair and reconstruction costs of the Facility payable by TLP;
3. All costs and expenses to be incurred by TLP in remedying and rectifying the defective design and/or construction of the Facility, which is currently estimated at RM8,000,000.00;
4. RM109,544,788.54 for loss of profits had the Facility been approved by Platts or alternatively, RM94,944,788.54 for loss of profits if the Facility remained unapproved by Platts;
5. An indemnity against all of TLP's liability towards TLP's dedicated user, which includes but is not limited to: (i) USD20,747,275.20 for value of the loss of product stored in the Facility; (ii) USD2,108,497.00 for additional costs, fees and expenses incurred; and (iii) USD118,374,250.00 for the dedicated user's loss of use of the Facility;
6. In the alternative to paragraph 5 above and subject to the settlement agreement between TLP and TLP's dedicated user becoming unconditional: (i) USD30,000,000.00 being the sum due to TLP's dedicated user under the settlement agreement; and (ii) RM6,170,746.16 for costs incurred by TLP in respect of all proceedings relating to TLP's dedicated user;
7. RM916,321.79 for the cost and expenses, including legal costs, incurred by TLP arising out of litigation and arbitration proceedings commenced by TLP against its insurer.
8. Interest on the sums referred to above until full settlement;
9. Costs; and
10. Such other reliefs as the tribunal deems fit.

The matter is pending arbitration process and hearing of the matter has been postponed to November 2017. The Company is of the opinion that the arbitration proceeding is not expected to have any impact on the operational and financial position of the Group for the financial year ending 30 June 2017.

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## INTERIM FINANCIAL REPORT

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### **B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D**

#### **B8 Material litigation – cont'd.**

As at the date of this announcement, there was no material litigation since the last audited annual statement of financial position except for the following:-

b) Arbitration Proceedings against Tanjung Langsat Port Sdn Bhd (“TLP”)

Centralised Terminals Sdn Bhd (“CTSB”) through its 80% owned subsidiary Langsat Terminal (One) Sdn Bhd (“LgT-1”) had, on 8 October 2014, commenced arbitration proceedings against TLP.

CTSB is 55% owned by the Company and 45% owned by MISC Berhad, which is a public company listed on the Main Market of Bursa Malaysia Securities Berhad. LgT-1, the claimant, is the owner and operator of the 476,000 m<sup>3</sup> tank terminal facility for the handling, storage and processing of petroleum and petroleum-related products located at Tanjung Langsat, Johor, Malaysia.

TLP, the respondent, is a wholly owned subsidiary of Johor Corporation Berhad and has been granted licence by the Johor Port Authority to carry on the business of operating and managing a port as well as providing port and jetty facilities at the Port of Tanjung Langsat in the State of Johor Darul Takzim.

The arbitration proceedings are pursuant to the provisions of the Concession Agreement dated 12 April 2007 and Deed of Novation dated 21 June 2007. The commencement of the arbitration proceedings against TLP, is in relation to the recovery of losses and damages suffered by LgT-1. LgT-1 is claiming for TLP’s breaches of its obligations to provide a minimum draft of 16.5 meters at the approach channel in order that the partially laden Very Large Crude Carriers would be able to access and berth at the port. LgT-1’s losses and damages are to be assessed. The arbitration has been referred to the Kuala Lumpur Regional Centre for Arbitration.

The hearing was completed in February 2017 and decision is expected in June 2017.

The Company is also of the opinion that the arbitration proceeding is not expected to have any impact on the operational and financial position of Group for the financial year ending 30 June 2017.

#### **B9 Dividends**

The Board does not recommend any interim dividend in respect of the current financial period.

## INTERIM FINANCIAL REPORT

**B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D****B10 Derivative financial instruments**

As at 31 December 2016, the Group has the following outstanding forward foreign exchange contracts.

	Contract Value		Fair value –
	FC'000	RM'000	net gains or (losses) RM'000
With maturity less than 1 year:			
Australian Dollar	461	1,500	8
Euro	926	4,392	(21)
New Zealand Dollar	20	62	(0)
Singapore Dollar	131	407	(2)
Sterling Pound	948	5,626	(386)
United States Dollar	33,254	138,884	(10,243)

These forward contracts are mainly to hedge the foreign currency risk associated with trade receivables and trade payables.

There is no significant change to the financial derivatives in respect of the following since the last financial year ended 30 June 2016:

- the credit risk, market risk, and liquidity risk associated with these financial derivatives;
- the cash requirement of the financial derivatives; and
- the policy in place for mitigating or controlling the risk associated with these financial derivatives.

The basis of fair value measurement is the difference between the contracted rates and the market forward rates. This resulted the Group recorded a gain when the rates moved favourable against the Group or recorded a loss when the rates moved unfavourable against the Group.

As at the end of the reporting period, the Group has entered into interest rate swap contracts to swap notional principals amounts of RM81,594,000 (2016:RM91,594,000) and USD102,000,000 (2016:USD68,000,000) from floating interest rate to fixed rate to hedge against interest rate fluctuations. The effective periods for these interest rate swaps are from March 2014 to June 2018 and January 2018 to January 2023 respectively.

**B11 Investments in joint ventures and associates**

Included in the investments in joint ventures and associates was unsecured advances amounted to RM325.5 million which bear interest at rates ranging from 4.50% to 6.50% per annum and are not repayable within the next twelve months. The advances together with the interest receivable thereon amounted to RM333.4 million as at 31 December 2016.

The Company also provided sponsor's undertaking to a joint venture as disclosed in A14.

## INTERIM FINANCIAL REPORT

**B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D****B12 Retained Profits**

The breakdown of retained profits of the Group as at date of statement of financial position, into realised and unrealised is as follow:

	<b>As at 31/12/2016 RM'000</b>	<b>As at 30/06/2016 RM'000</b>
Total retained profits of the Company & its subsidiaries		
- Realised	1,257,502	1,206,155
- Unrealised	35,368	22,454
	<u>1,292,870</u>	<u>1,228,609</u>
Total share of retained profits from associates		
- Realised	(2,190)	(1,632)
- Unrealised	-	-
Total share of retained profits from joint ventures		
- Realised	150,842	101,968
- Unrealised	(6,618)	9,696
<b>Total before consolidation adjustments</b>		
- Realised	1,406,154	1,306,491
- Unrealised	28,750	32,150
	1,434,904	1,338,641
Less: Consolidation adjustments	<u>(226,631)</u>	<u>(238,859)</u>
<b>Total retained profits as per consolidated accounts</b>	<u><u>1,208,273</u></u>	<u><u>1,099,782</u></u>

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

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

## INTERIM FINANCIAL REPORT

**B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D****B13 Earnings per share**

The basic earnings per ordinary share for the current financial period is calculated by dividing the profit for the financial period attributable to owners of the Company by the weighted average number of ordinary shares after deducting treasury shares.

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	3 MONTHS ENDED		6 MONTHS ENDED	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Profit for the financial period attributable to owners of the Company (RM'000)	91,358	78,006	172,694	138,078
Weighted average number of ordinary shares in issue ('000)	5,330,375	5,147,339	5,303,939	5,115,991

Diluted earnings per ordinary share for the current financial period is calculated by dividing the profit for the financial period attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the financial period adjusted for the effects of dilutive potential ordinary shares. The adjusted weighted average number of ordinary shares in issue and issuable has been arrived at based on the assumption that ESOS and Warrants are exercised at the beginning of the financial period. The ordinary shares to be issued under ESOS and Warrants are based on the assumed proceeds on the difference between average share price for the financial period and exercise price.

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	3 MONTHS ENDED		6 MONTHS ENDED	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Profit for the financial period attributable to owners of the Company (RM'000)	91,358	78,006	172,694	138,078
Weighted average number of ordinary shares in issue ('000)	5,330,375	5,147,339	5,303,939	5,115,991
Effect of dilution due to:				
- Warrants ('000)	14,362	51,745	14,330	49,035
- ESOS ('000)	22,494	56,671	22,450	55,351
Adjusted weighted average number of ordinary shares applicable to diluted earnings per share ('000)	5,367,231	5,255,755	5,340,719	5,220,377

## INTERIM FINANCIAL REPORT

## B EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA – CONT'D

## B14 Profit for the period

	INDIVIDUAL PERIOD	CUMULATIVE PERIOD
	3 MONTHS ENDED 31/12/2016 RM'000	6 MONTHS ENDED 31/12/2016 RM'000
This is arrived at after (charging)/crediting:		
Interest income	8,346	15,506
Interest expense	(6,387)	(13,111)
Depreciation and amortisation	(21,007)	(39,603)
Foreign exchange gain	2,253	2,476
Gain on disposal of other investment	85	85
Gain on disposal of property, plant and equipment	4,502	22,268
Property, plant and equipment written off	(25)	(57)
Rental income	1,951	3,910
Impairment loss for goodwill	-	(12)
Other miscellaneous income	386	502

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia are not applicable.

Date: 14 February 2017