



QUARTERLY REPORT

On the consolidated results for the first quarter ended 30 September 2019

The Directors are pleased to announce the following:

Unaudited Condensed Consolidated Statement of Profit or Loss Amounts in RM million unless otherwise stated

	Note	Quarter ended 30 September 2019	2018 Restated	% +/(-)
Revenue	A7	9,476	8,845	7.1
Operating expenses		(9,109)	(8,582)	
Other operating income		27	26	
Other gains and losses		(11)	75	
Operating profit		383	364	5.2
Share of results of joint ventures		11	18	
Share of results of associates		(14)	(30)	
Profit before interest and tax	A7	380	352	8.0
Finance income		11	9	
Finance costs		(39)	(30)	
Profit before tax	B5	352	331	6.3
Taxation	B6	(93)	(93)	
Profit for the period		259	238	8.8
Attributable to owners of:				
- the Company		246	225	9.3
- non-controlling interests		13	13	-
Profit for the period		259	238	8.8
		Sen	Sen	
Basic earnings per share attributable to owners of the Company	B12	3.6	3.3	9.1

The unaudited Condensed Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2019.

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))

Unaudited Condensed Consolidated Statement of Comprehensive Income
Amounts in RM million unless otherwise stated

	Quarter ended	
	30 September	
	2019	2018
Profit for the period	<u>259</u>	<u>238</u>
Other comprehensive income:		
Items that will be reclassified subsequently to profit or loss:		
Currency translation differences	(208)	48
Share of other comprehensive (loss)/income of joint ventures and associates	(17)	2
Net changes in fair value of cash flow hedges	2	(12)
Tax credit	-	4
	<u>(223)</u>	<u>42</u>
Reclassified to profit or loss currency translation differences on repayment of net investment and disposal of subsidiaries	4	1
Reclassified changes in fair value of cash flow hedges to profit or loss and inventories	(9)	1
Tax credit	3	-
	<u>(225)</u>	<u>44</u>
Items that will not be reclassified subsequently to profit or loss:		
Share of actuarial gain on defined benefit pension plans of a joint venture	1	2
Total other comprehensive (loss)/income	<u>(224)</u>	<u>46</u>
Total comprehensive income for the period	<u><u>35</u></u>	<u><u>284</u></u>
Attributable to owners of:		
- the Company	29	272
- non-controlling interests	6	12
Total comprehensive income for the period	<u><u>35</u></u>	<u><u>284</u></u>

The unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2019.

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))
Unaudited Condensed Consolidated Statement of Financial Position
Amounts in RM million unless otherwise stated

	Note	Unaudited As at 30 September 2019	Audited As at 30 June 2019
<u>Non-current assets</u>			
Property, plant and equipment		5,529	5,727
Right-of-use assets		2,490	–
Prepaid lease rentals		–	292
Investment properties		283	286
Intangible assets		1,476	1,484
Joint ventures and associates		1,659	1,578
Financial assets at fair value through profit or loss		86	87
Deferred tax assets		535	542
Tax recoverable		54	65
Derivative assets		–	2
Receivables and other assets		184	283
		12,296	10,346
<u>Current assets</u>			
Inventories		8,918	8,538
Receivables, contract assets and other assets		4,302	4,166
Prepayments		673	563
Tax recoverable		68	72
Derivative assets	B9(a)	7	6
Bank balances, deposits and cash		1,949	1,723
		15,917	15,068
Assets held for sale		98	102
Total assets		28,311	25,516
<u>Equity</u>			
Share capital		9,299	9,299
Reserves		4,902	5,414
Attributable to owners of the Company		14,201	14,713
Non-controlling interests		409	405
Total equity		14,610	15,118
<u>Non-current liabilities</u>			
Borrowings	B8	171	178
Lease liabilities		1,455	–
Payables, contract liabilities and other liabilities		190	179
Government grants		156	152
Provisions		21	16
Deferred tax liabilities		294	289
		2,287	814
<u>Current liabilities</u>			
Borrowings	B8	3,401	2,397
Lease liabilities		382	–
Derivative liabilities	B9(a)	27	18
Payables and other liabilities		4,745	4,647
Contract liabilities		1,735	1,991
Provisions		431	405
Tax payable		149	126
Dividend payable		544	–
		11,414	9,584
Total liabilities		13,701	10,398
Total equity and liabilities		28,311	25,516
Net assets per share attributable to owners of the Company (RM)		2.09	2.16

The unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2019.

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))

Unaudited Condensed Consolidated Statement of Changes in Equity
Amounts in RM million unless otherwise stated

	Share capital	Share grant reserve	Capital reserve	Legal reserve	Hedging reserve	Exchange reserve	Retained profits	Reserves	Attributable to owners of the Company	Non-controlling interests	Total equity
Quarter ended 30 September 2019											
At 1 July 2019	9,299	6	231	99	(6)	50	5,034	5,414	14,713	405	15,118
Total comprehensive (loss)/ income for the period	-	-	-	-	(4)	(214)	247	29	29	6	35
Dividends paid	-	-	-	-	-	-	-	-	-	(6)	(6)
Dividends payable	-	-	-	-	-	-	(544)	(544)	(544)	-	(544)
Acquisition of non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	4	4
Performance-based employee share scheme	-	3	-	-	-	-	-	3	3	-	3
At 30 September 2019	9,299	9	231	99	(10)	(164)	4,737	4,902	14,201	409	14,610

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))

Unaudited Condensed Consolidated Statement of Changes in Equity
Amounts in RM million unless otherwise stated

	Share capital	Capital reserve	Legal reserve	Hedging reserve	Available-for-sale reserve	Exchange reserve	Retained profits	Reserves	Attributable to owners of the Company	Non-controlling interests	Total equity
Quarter ended 30 September 2018 (Restated)											
At 1 July 2018, as previously stated	9,299	189	62	(17)	3	104	4,730	5,071	14,370	389	14,759
Effects of adoption of MFRS 9	–	–	–	–	(3)	–	(19)	(22)	(22)	–	(22)
Restated as at 1 July 2018	9,299	189	62	(17)	–	104	4,711	5,049	14,348	389	14,737
Total comprehensive (loss)/ income for the period	–	–	–	(7)	–	52	227	272	272	12	284
Dividends paid	–	–	–	–	–	–	–	–	–	(28)	(28)
Dividends payable	–	–	–	–	–	–	(408)	(408)	(408)	–	(408)
Acquisition of non-controlling interests	–	–	–	–	–	–	(4)	(4)	(4)	1	(3)
Reclassification upon disposal of a subsidiary	–	–	(15)	–	–	–	15	–	–	–	–
Transfer between reserves	–	23	–	–	–	–	(23)	–	–	–	–
At 30 September 2018	9,299	212	47	(24)	–	156	4,518	4,909	14,208	374	14,582

Unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2019.

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))

Unaudited Condensed Consolidated Statement of Cash Flows
Amounts in RM million unless otherwise stated

	Note	Quarter ended 30 September	
		2019	2018 Restated
Cash flow from operating activities			
Profit for the period		259	238
Adjustments for:			
Share of results of joint ventures and associates		3	12
Finance income		(11)	(9)
Finance costs		39	30
Taxation		93	93
Gain on disposal of a subsidiary		–	(78)
Net gain on disposal of assets		(1)	(3)
Depreciation and amortisation		235	147
Impairments/(reversal of impairments) and write offs of receivables (net)		3	(2)
Inventory writedown and provision (net)		61	36
Net fair value loss/(gain) on financial assets at fair value		4	(3)
Other non-cash items		14	12
		699	473
Changes in working capital:			
Inventories		(149)	(443)
Rental assets		(182)	(134)
Trade, other receivables and prepayments		(151)	(96)
Trade, other payables and provisions		(186)	228
Cash generated from operations		31	28
Tax paid		(34)	(54)
Dividends received from associates and joint ventures		3	–
Net cash used in operating activities		–	(26)
Cash flow from investing activities			
Finance income received		7	9
Purchase of property, plant and equipment, intangible assets and prepaid lease rentals		(137)	(134)
Acquisition of subsidiaries	A11	(526)	–
Acquisition of a business		(16)	–
Subscription of shares in a joint venture		(2)	–
Addition to financial assets at fair value through profit or loss		(5)	(5)
Proceeds from sale of a subsidiary		–	252
Proceeds from sale of property, plant and equipment and investment properties		11	30
Net repayment of loans by joint ventures		–	17
Capital repayment by an associate		20	–
Net cash (used in)/from investing activities		(648)	169

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))

Unaudited Condensed Consolidated Statement of Cash Flows (continued)
Amounts in RM million unless otherwise stated

	Note	Quarter ended 30 September	
		2019	2018 Restated
Cash flow from financing activities			
Finance costs paid		(27)	(34)
Net borrowings raised		1,036	42
Repayment of lease liabilities		(97)	–
Purchase of additional interest in a subsidiary		–	(3)
Dividends paid to non-controlling interests ¹		(6)	(28)
Net cash from/(used in) financing activities		906	(23)
Net increase in cash and cash equivalents			
		258	120
Foreign exchange differences		(15)	15
Cash and cash equivalents at beginning of the period		1,629	1,629
Cash and cash equivalents at end of the period		1,872	1,764
For the purpose of the Statement of Cash Flows, cash and cash equivalents comprised the following:			
Bank balances, deposits and cash		1,949	1,809
Less:			
Bank overdrafts	B8	(77)	(45)
		1,872	1,764

¹ Dividends paid to other shareholders of non-wholly owned subsidiaries.

The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying explanatory notes and the audited financial statements for the financial year ended 30 June 2019.

EXPLANATORY NOTES

This interim financial report is prepared in accordance with the requirements of paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad and complies with the requirements of the Malaysian Financial Reporting Standard (“MFRS”) 134 – Interim Financial Reporting and other MFRS issued by the Malaysian Accounting Standards Board (“MASB”). The interim financial report is unaudited and should be read in conjunction with the Group’s audited annual financial statements for the financial year ended 30 June 2019.

A. EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of Preparation

The accounting policies and presentation adopted for this interim financial report are consistent with those adopted for the audited annual financial statements for the financial year ended 30 June 2019, except as set out below.

a) New accounting pronouncements

i) Accounting pronouncements adopted for this interim financial report are set out below:

- MFRS 16 – Leases

Under MFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

MFRS 16 eliminates the classification of leases by the lessee as either finance leases (on balance sheet) or operating leases (off balance sheet). MFRS 16 requires a lessee to recognise a “right-of-use” of the underlying asset and a lease liability reflecting future lease payments for most leases.

The right-of-use asset is depreciated in accordance with the principle in MFRS 116 - Property, Plant and Equipment and the lease liability is accreted over time with interest expense recognised in profit or loss.

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 the modified retrospective approach as permitted by MFRS 16 and has not restated the comparatives. The reclassifications and adjustments arising from the adoption of MFRS 16 are therefore recognised in the opening balance of statement of financial position as at the date of initial application (1 July 2019).

The impacts of the adoption of MFRS 16 are as follows:

- i. Leases previously classified as operating leases
- Recognition of lease liabilities measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application (1 July 2019).
 - Recognition of the associated right-of-use assets at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments.
 - Provisions for onerous leases have been reclassified to right-of-use assets.

A1. Basis of Preparation (continued)

a) New accounting pronouncements (continued)

i) Accounting pronouncements adopted for this interim financial report are set out below: (continued)

- MFRS 16 – Leases (continued)

i. Leases previously classified as operating leases (continued)

The Group has also applied the following practical expedients at initial application as permitted by the standard:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases,
- the exemption to apply the standard principles on leases for which the underlying asset is of low value,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- reliance on assessments made immediately before the transition date on whether leases are onerous. On 1 July 2019, the Group adjusted the right-of-use assets by the amount of provision for onerous leases recognised immediately before the transition date, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Finance lease liabilities as at the date of initial application have been reclassified from borrowings to lease liabilities.

iii. Property, plant and equipment and prepaid lease rentals

Leasehold land (within property, plant and equipment) and prepaid lease rentals have been reclassified to right-of-use assets.

The effects arising from these changes on the statement of financial position of the Group are as follows:

	As at 30 June 2019	Effects of MFRS 16	Restated as at 1 July 2019
<u>Non-current assets</u>			
Property, plant and equipment	5,727	(398)	5,329
Right-of-use assets	–	2,450	2,450
Prepaid lease rentals	292	(292)	–
<u>Current assets</u>			
Prepayments	563	(3)	560
<u>Non-current liabilities</u>			
Borrowings	178	(2)	176
Lease liabilities	–	1,405	1,405
<u>Current liabilities</u>			
Borrowings	2,397	(1)	2,396
Lease liabilities	–	371	371
Payables and other liabilities	4,647	(12)	4,635
Provisions	405	(4)	401

A1. Basis of Preparation (continued)

a) New accounting pronouncements (continued)

- i) Accounting pronouncements adopted for this interim financial report are set out below: (continued)

Accounting pronouncements adopted for this interim financial report that do not have any significant impact to the Group:

- Long-term Interest in Associates and Joint Ventures (Amendments to MFRS 128)
- Prepayment Features with Negative Compensation (Amendments to MFRS 9)
- IC Interpretation 23 – Uncertainty over Income Tax Treatments
- Annual Improvements to MFRS Standards 2015–2017 Cycle (Amendments to MFRS 3, MFRS 11, MFRS 112 and MFRS 123)
- Plan Amendment, Curtailment or Settlement (Amendments to MFRS 119)

- ii) Accounting pronouncements that are not yet effective are set out below:

Effective for annual reporting periods beginning on or after 1 January 2020

- Conceptual Framework for Financial Reporting : The Reporting Entity and corresponding amendments to references in the relevant standards
- Definition of a Business (Amendments to MFRS 3)
- Definition of Material (Amendments to MFRS 101 and MFRS 108)
- Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139 and MFRS 7)

Effective for annual reporting periods beginning on or after 1 January 2021

- MFRS 17 – Insurance Contracts

- iii) Accounting pronouncement where the effective date has been deferred to a date to be determined by MASB is set out below:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to MFRS 10 and MFRS 128)

A2. Seasonal or Cyclical Factors

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

A3. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

Except as disclosed in the financial statements on pages 1 to 7 and Notes A1, B1, B2 and B5, there were no material unusual items affecting the Group's assets, liabilities, equity, net income or cash flows during the financial period under review.

A4. Material Changes in Estimates

Except as disclosed in notes B1, B2 and B5, there were no material changes in the estimates of amounts reported in the prior interim periods of the current financial year or the previous financial years that have a material effect on the results for the current quarter under review.

A5. Debt and Equity Securities

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

A6. Dividends Paid to Shareholders

No dividend was paid during quarter ended 30 September 2019.

SIME DARBY BERHAD
(Company No: 200601032645 (752404-U))

Explanatory Notes on the Quarterly Report – 30 September 2019
Amounts in RM million unless otherwise stated

A7. Segment Information

	Industrial	Motors	Logistics	Healthcare	Others	Corporate/ Elimination	Total
Quarter ended 30 September 2019							
Segment revenue:							
External	3,996	5,408	62	–	10	–	9,476
Inter-segment	–	2	–	–	–	(2)	–
	3,996	5,410	62	–	10	(2)	9,476
Profit/(loss) before interest and tax	260	134	6	15	(16)	(19)	380
Net finance costs							(28)
Taxation							(93)
Profit for the period							259
Quarter ended 30 September 2018 (Restated)							
Segment revenue:							
External	3,216	5,516	80	–	33	–	8,845
Inter-segment	1	3	–	–	12	(16)	–
	3,217	5,519	80	–	45	(16)	8,845
Profit/(loss) before interest and tax	184	105	89	15	(30)	(11)	352
Net finance costs							(21)
Taxation							(93)
Profit for the period							238

SIME DARBY BERHAD
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Explanatory Notes on the Quarterly Report – 30 September 2019
Amounts in RM million unless otherwise stated

A7. Segment Information (continued)

	Industrial	Motors	Logistics	Healthcare	Others	Corporate/ Elimination	Total
As at 30 September 2019							
Segment assets	12,309	11,317	2,210	798	256	764	27,654
Segment liabilities	(3,070)	(3,593)	(266)	–	(361)	(559)	(7,849)
Segment invested capital	9,239	7,724	1,944	798	(105)	205	19,805
Net tax assets							214
Borrowings and lease liabilities							(5,409)
Total Equity							14,610
As at 30 June 2019							
Segment assets	10,939	9,691	2,253	784	276	894	24,837
Segment liabilities	(3,313)	(3,456)	(264)	–	(361)	(14)	(7,408)
Segment invested capital	7,626	6,235	1,989	784	(85)	880	17,429
Net tax assets							264
Borrowings							(2,575)
Total Equity							15,118

SIME DARBY BERHAD
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Explanatory Notes on the Quarterly Report – 30 September 2019
 Amounts in RM million unless otherwise stated

A7. Segment information (continued)

Revenue comprise the following:

	First quarter ended 30 September	
	2019	2018
Revenue from contracts with customers	9,283	8,661
Rental income	193	184
	9,476	8,845

Analysis of the Group's revenue from contracts with customers is as follows:

First quarter ended 30 September 2019	Industrial	Motors	Logistics	Others	Total
Major goods and services					
Sale of equipment and vehicles	2,008	4,504	–	–	6,512
Sale of parts, assembly charges and provision of after-sales services	1,756	760	–	–	2,516
Engineering services	102	–	–	–	102
Port and related charges	–	–	62	–	62
Commission, handling fees and others	–	84	–	7	91
	3,866	5,348	62	7	9,283
Geographical location					
Malaysia	252	829	–	5	1,086
China	1,046	2,525	62	1	3,634
Other countries in Asia	199	1,299	–	1	1,499
Australasia	2,369	695	–	–	3,064
	3,866	5,348	62	7	9,283
Timing of revenue recognition					
At a point in time	3,077	4,610	–	6	7,693
Over time	789	738	62	1	1,590
	3,866	5,348	62	7	9,283

First quarter ended 30 September 2018	Industrial	Motors	Logistics	Others	Total
Major goods and services					
Sale of equipment and vehicles	1,511	4,695	–	–	6,206
Sale of parts, assembly charges and provision of after-sales services	1,497	699	–	–	2,196
Engineering services	78	–	–	–	78
Port and related charges	–	–	61	–	61
Sale of water	–	–	19	–	19
Commission, handling fees and others	–	72	–	29	101
	3,086	5,466	80	29	8,661

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Explanatory Notes on the Quarterly Report – 30 September 2019
Amounts in RM million unless otherwise stated

A7. Segment information (continued)

Analysis of the Group's revenue from contracts with customers is as follows: (continued)

First quarter ended 30 September 2018	Industrial	Motors	Logistics	Others	Total
Geographical location					
Malaysia	291	1,162	–	26	1,479
China	731	2,349	80	1	3,161
Other countries in Asia	156	1,246	–	2	1,404
Australasia	1,908	709	–	–	2,617
	<u>3,086</u>	<u>5,466</u>	<u>80</u>	<u>29</u>	<u>8,661</u>
Timing of revenue recognition					
At a point in time	2,373	4,798	–	5	7,176
Over time	713	668	80	24	1,485
	<u>3,086</u>	<u>5,466</u>	<u>80</u>	<u>29</u>	<u>8,661</u>

A8. Capital Commitments

Contracted capital expenditure not provided for in the interim financial report is as follows:

	As at 30 September 2019	As at 30 June 2019
Contracted:		
- Property, plant and equipment	230	253
- Other capital expenditure and acquisitions	367	60
	<u>597</u>	<u>313</u>

A9. Significant Related Party Transactions

Significant related party transactions conducted during the quarter ended 30 September are as follows:

	Quarter ended 30 September	
	2019	2018
a. Transactions with joint ventures and associates		
Purchase of products and services from Sitech Construction Systems Pty Ltd	4	3
Channel usage fees charged by Weifang Port Services Co Ltd	3	2
Contribution paid to Yayasan Sime Darby	10	10

SIME DARBY BERHAD
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Explanatory Notes on the Quarterly Report – 30 September 2019
Amounts in RM million unless otherwise stated

A9. Significant Related Party Transactions (continued)

Significant related party transactions conducted during the quarter ended 30 September are as follows:
(continued)

	Quarter ended 30 September	
	2019	2018
b. Transactions between subsidiaries and non-controlling interests		
Purchase of agricultural tractors, engines and parts by Sime Kubota Sdn Bhd from Kubota Corporation	–	8
Royalty payment to and procurement of cars and ancillary services by Inokom Corporation Sdn Bhd (“ICSB”) from Hyundai Motor Company and its related companies	–	4
Contract assembly service provided by ICSB to Berjaya Corporation Berhad group/Bermaz Auto Berhad group	18	27
Sale of vehicles and parts by Jaguar Land Rover (M) Sdn Bhd to Sisma Auto Sdn Bhd	9	8

c. Transactions with shareholders and their related companies

Permodalan Nasional Berhad (“PNB”) and the funds managed by its subsidiary, Amanah Saham Nasional Berhad, together own approximately 51% as at 30 September 2019 of the issued share capital of the Company. PNB is an entity controlled by the Malaysian Government through Yayasan Pelaburan Bumiputra (“YPB”). The Group considers that, for the purpose of MFRS 124 – Related Party Disclosures, YPB and the Malaysian Government are in the position to exercise significant influence over it. As a result, the Malaysian Government and Malaysian Government’s controlled bodies (collectively referred to as government-related entities) are related parties of the Group and the Company.

Significant related party transactions with Sime Darby Plantation Berhad and Sime Darby Property Berhad (former subsidiaries) are as follows:

	Quarter ended 30 September	
	2019	2018
Provision of shared services	–	21
Sales, servicing and leasing of equipment and vehicles	7	13
Renovation work on Automotive Complex	–	4
Rental income	2	2
Rental and property management charges	3	2
Foreign currency payment arrangement	26	28

A10. Material Events Subsequent to the End of the Financial Period

There were no material events subsequent to the end of the current quarter under review to 20 November 2019, being a date not earlier than 7 days from the date of issue of the quarterly report.

SIME DARBY BERHAD
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Explanatory Notes on the Quarterly Report – 30 September 2019
 Amounts in RM million unless otherwise stated

A11. Effect of Significant Changes in the Composition of the Group

Significant changes in the composition of the Group are as follows:

1. Establishment of a new subsidiary

Shenzen Sime Darby Motors Sales and Services Company Limited was incorporated in the People's Republic of China on 6 September 2019.

2. Acquisition of subsidiaries

On 30 September 2019, Sime Darby (NZ) Holdings Limited, an indirect wholly-owned subsidiary of Sime Darby Berhad, completed the acquisition of the entire share capital in Gough Group Limited for a gross consideration of NZD211 million (equivalent to approximately RM556 million).

Details of net assets and net cash outflow arising from the acquisition of the subsidiaries are as follows:

Net assets acquired	560
Non-controlling interest	(4)
Purchase consideration	556
Less: Cash and cash equivalents of subsidiaries acquired	(30)
Net cash outflow on acquisition	526

The fair value of net assets stated above is provisional and will be adjusted, if necessary, upon completion of the purchase price allocation as allowed under MFRS 3. The book value of net assets approximated the provisional fair value.

A12. Contingent Liabilities – unsecured

a) Guarantees

In the ordinary course of business, the Group issues surety bonds and letters of credit, which the Group provides to customers to secure advance payment, performance under contracts or in lieu of retention being withheld on contracts. Financial guarantees are also issued to financial institutions in respect of credit facilities granted to certain joint ventures. A liability from the performance and financial guarantees would only arise in the event the Group fails to fulfil its contractual obligations.

The performance guarantees and financial guarantees are as follows:

	As at 30 September 2019	As at 30 June 2019
Performance guarantees and advance payment guarantees to customers of the Group	2,073	2,147
Guarantees in respect of credit facilities granted to certain joint ventures	228	231
	2,301	2,378

In addition, the Group guarantees the payment from its customers under a risk sharing arrangement with a third party leasing company in connection with the sale of its equipment up to a pre-determined amount. As at 30 September 2019, the total outstanding risk sharing amount on which the Group has an obligation to pay the leasing company should the customers default, amounted to RM262 million (30 June 2019: RM276 million).

b) Claims

	As at 30 September 2019	As at 30 June 2019
Potential claims	35	19

The claims include disputed amounts for the supply of goods and services.

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B. EXPLANATORY NOTES PURSUANT TO PARAGRAPH 9.22 OF THE MAIN MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of Group Performance

	Quarter ended 30 September		% +/(-)
	2019	2018 Restated	
Revenue	<u>9,476</u>	<u>8,845</u>	7.1
Segment results:			
Industrial	260	184	41.3
Motors	134	105	27.6
Logistics	6	89	(93.3)
Healthcare	15	15	–
Others	<u>(16)</u>	<u>(30)</u>	46.7
	399	363	9.9
Corporate exchange (loss)/gain	(4)	3	
Corporate expense and elimination	<u>(15)</u>	<u>(14)</u>	
Profit before interest and tax	380	352	8.0
Finance income	11	9	
Finance costs	<u>(39)</u>	<u>(30)</u>	
Profit before tax	352	331	6.3
Taxation	<u>(93)</u>	<u>(93)</u>	
Profit for the period	259	238	8.8
Non-controlling interests	<u>(13)</u>	<u>(13)</u>	
Profit attributable to owners of the Company	<u>246</u>	<u>225</u>	9.3

An analysis of the results for the quarter ended 30 September 2019 against the quarter ended 30 September 2018 is as follows:

a) Industrial

Profit increased by 41.3% to RM260 million mainly due to higher equipment sales in Australasia and China.

b) Motors

Profit increased by 27.6% to RM134 million mainly driven by improved margins and higher revenue in China. This was partly offset by lower sales in Malaysia as the previous corresponding period benefited from higher sales as a result of the zero-rating of Goods and Services Tax while the Singapore operations were affected by competition in the current quarter.

c) Logistics

Profit decreased by 93.3% to RM6 million in the current quarter. The previous corresponding period included gain on disposal of RM78 million of Weifang Sime Darby Water Management Co., Ltd (“Weifang Water”) and its profit contribution of RM9 million. Excluding these, profit increased by RM4 million mainly due to higher bulk throughput at Weifang Port and lower foreign exchange losses.

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B1. Review of Group Performance (continued)

An analysis of the results for the quarter ended 30 September 2019 against the quarter ended 30 September 2018 is as follows: (continued)

d) Others

The results include the share of loss (inclusive of impairment) of the Group's investment in Eastern & Oriental Berhad ("E&O") of RM16 million in the current quarter (RM35 million in the previous corresponding period).

e) Finance costs

The finance costs of RM39 million includes finance costs relating to lease liabilities of RM16 million following the adoption of MFRS 16.

B2. Material Changes in Profit for the Current Quarter as Compared to the Results of the Preceding Quarter

	Quarter ended		
	30 September 2019	30 June 2019	% +/(-)
Revenue	<u>9,476</u>	<u>9,323</u>	1.6
Segment results:			
Industrial	260	212	22.6
Motors	134	276	(51.4)
Logistics	6	(113)	105.3
Healthcare	15	7	114.3
Others	<u>(16)</u>	<u>(12)</u>	(33.3)
	399	370	7.8
Corporate exchange (loss)/gain	(4)	-	
Corporate expense and elimination	<u>(15)</u>	<u>(3)</u>	
Profit before interest and tax	380	367	3.5
Finance income	11	8	
Finance costs	<u>(39)</u>	<u>(31)</u>	
Profit before tax	352	344	2.3
Taxation	<u>(93)</u>	<u>(142)</u>	
Profit for the period	259	202	28.2
Non-controlling interests	<u>(13)</u>	<u>(18)</u>	
Profit attributable to owners of the Company	246	184	33.7

An analysis of the results for the quarter ended 30 September 2019 against the quarter ended 30 June 2019 is as follows:

a) Industrial

Profit increased by 22.6% to RM260 million in the current quarter mainly due to higher equipment sales to the mining and construction sectors in Australia.

b) Motors

Profit decreased by 51.4% to RM134 million in the current quarter as the preceding quarter included a dividend received of RM135 million. Excluding this dividend, profit decreased by RM7 million mainly due to lower profit from the super luxury segment in China.

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B2. Material Changes in Profit for the Current Quarter as Compared to the Results of the Preceding Quarter (continued)

An analysis of the results for the quarter ended 30 September 2019 against the quarter ended 30 June 2019 is as follows: (continued)

c) Logistics

Profit increased by 105.3% to RM6 million as the preceding quarter included share of loss (inclusive of impairment) from Weifang Port Services of RM119 million.

d) Healthcare

The current quarter's share of profit from Ramsay Sime Darby Healthcare joint venture is higher by 114.3% or RM8 million as the preceding quarter's results included adjustments to tax expense.

e) Others

The results include the share of loss (inclusive of impairment) of the Group's investment in E&O of RM16 million in the current quarter against RM18 million in the preceding quarter.

f) Taxation

The previous quarter included adjustments to the deferred tax balances and temporary differences.

The variance for finance costs is as explained in Note B1.

B3. Prospects

The Group had achieved a satisfactory performance in the current quarter despite continuing trade tensions and uncertainties in the global economic environment. The International Monetary Fund had revised its global growth forecast downwards from 3.3% to 3.0% in October 2019 but a recovery is projected for calendar year 2020.

The Industrial division's results continues to be supported by the robust mining industry and increased infrastructure spending in Australia. The Gough Group acquisition has enabled the division to expand into New Zealand, with exposure to different industries. The acquisition is expected to contribute positively to the division in the current financial year.

The Motors division's environment remain competitive as China deals with softer demand and market sentiment remains cautious. The division's outlook for the Malaysian operations remains positive with more certainty expected after the revised National Automotive Policy 2019 is released. The acquisition of three Sydney dealerships, expected to be completed by the end of calendar year 2019, and the Gough Group's transport and materials handling business will further strengthen the division's presence in Australasia.

The Logistics division continues to improve operational productivity and diversifying cargo type and customers despite the impact of the on-going trade tensions.

Notwithstanding the above and barring any unforeseen circumstances, the Board expects the Group's performance for the financial year ending 30 June 2020 to be satisfactory.

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B4. Variance of Actual Profit from Profit Forecast or Profit Guarantee

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

B5. Profit before tax

	Quarter ended 30 September	
	2019	2018 Restated
Included in operating profit are:		
Depreciation and amortisation	(235)	(147)
(Impairments)/reversal of impairments and write offs of receivables (net)	(3)	2
Inventory writedown and provision (net)	(61)	(36)
Net gain on disposal of subsidiaries	–	78
Gain on disposal of properties ¹	–	2
Net gain on disposal of other assets	1	1
Net foreign exchange loss	(10)	(7)
Net fair value (loss)/gain on financial assets at fair value	(4)	3
Net gain/(loss) on derivatives	<u>2</u>	<u>(2)</u>
Included in share of associate results are:		
Impairment of associates	<u>(16)</u>	<u>(35)</u>

¹ Includes gain/(loss) on disposal of investment properties and land and buildings.

B6. Taxation

	Quarter ended 30 September	
	2019	2018
Current tax:		
- current year	74	71
- previous years	<u>4</u>	<u>–</u>
	78	71
Deferred tax:		
- origination and reversal of temporary differences and other deferred tax adjustments	<u>15</u>	<u>22</u>
	<u>93</u>	<u>93</u>

The effective tax rate excluding share of associate and joint venture results for the current quarter of 26.2% is not materially different from the applicable tax rate for the current quarter of 26.5%.

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B7. Status of Corporate Proposals

The following is the corporate proposal announced but not completed as at 20 November 2019:

On 11 September 2019, the Company announced the acquisition of the business assets and properties of three luxury car dealerships in Sydney, Australia for a consideration of AUD112 million (approximately RM321 million) from Inchcape Australia Limited. The three dealerships represent the BMW, MINI, Volkswagen, Jaguar and Land Rover marques.

The definitive agreements were entered into by the Company's indirect wholly-owned subsidiaries under Sime Darby Motors Sdn Bhd and Trivett, the automotive retail unit of Inchcape Australia Limited, on 10 September 2019. The proposed acquisition is expected to be completed by early December 2019.

B8. Group Borrowings

The breakdown of the borrowings as at 30 September 2019 is as follows:

	Secured	Unsecured	Total
<u>Long-term</u>			
Term loans	24	–	24
Islamic financing	–	147	147
	24	147	171
<u>Short-term</u>			
Term loans due within one year	3	–	3
Islamic financing due within one year	–	56	56
Short term Islamic financing	–	518	518
Bank overdrafts	–	77	77
Revolving credits, bankers acceptances, trade facilities and other short-term borrowings	–	2,747	2,747
	3	3,398	3,401
Total borrowings	27	3,545	3,572

The Group borrowings in RM equivalent analysed by currency are as follows:

	Long-term borrowings	Short-term borrowings	Total
Ringgit Malaysia	147	659	806
Australian dollar	–	264	264
Chinese renminbi	–	295	295
Hong Kong dollar	–	249	249
New Zealand dollar	–	811	811
Pacific franc	24	20	44
Taiwan dollar	–	52	52
Thailand baht	–	157	157
United States dollar	–	770	770
Singapore dollar	–	124	124
Total borrowings	171	3,401	3,572

Secured borrowings are secured by fixed and floating charges over property, plant and equipment in a New Caledonia subsidiary.

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B9. Financial Instruments

a) Derivatives

The Group uses forward foreign exchange contracts to primarily manage its exposure to foreign exchange risk. The fair values of these contracts as at 30 September 2019 are as follows:

	Classification in Statement of Financial Position		Net fair value
	Assets Current	Liabilities Current	
Forward foreign exchange contracts	<u>7</u>	<u>(27)</u>	(20)

There is no change to the type of derivative financial contracts entered into, cash requirements of the derivatives, risk associated with the derivatives and the risk management objectives and policies to mitigate these risks since the financial year ended 30 June 2019.

The description, notional amount and maturity profile of the derivatives are shown below:

Forward foreign exchange contracts

The forward foreign currency contracts are stated at fair value, using the prevailing market rates. Changes in fair value of the forward foreign currency contracts are recognised in other comprehensive income unless hedge accounting is not applied, in which case, the changes to the fair value of the derivatives are taken to profit or loss.

As at 30 September 2019, the notional amount, fair value and maturity tenor of the forward foreign exchange contracts are as follows:

	Notional amount	Net fair value liabilities
- less than 1 year	<u>1,419</u>	<u>(20)</u>

b) Fair Value Changes of Financial Liabilities

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

B10. Material Litigation

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 November 2019 are as follows:

a) Qatar Petroleum Project (“QP Project”), Maersk Oil Qatar Project (“MOQ Project”) and the Marine Project Civil Suit (“Oil & Gas Suit”)

On 23 December 2010, Sime Darby Berhad and four subsidiaries (collectively, “the Plaintiffs”) filed a civil suit against Dato’ Seri Ahmad Zubair @ Ahmad Zubir Hj Murshid, Dato’ Mohamad Shukri Baharom, Abdul Rahim Ismail, Abdul Kadir Alias and Mohd Zaki Othman (collectively, “the Defendants”) for damages arising from the Defendants’ negligence and breaches of duty relating to the QP Project, the MOQ Project and the project relating to the construction of a derrick lay barge for an aggregate amount of RM93 million and USD79 million (approximately RM328 million) together with general and aggravated damages and other relief.

On 13 June 2014, all the Defendants consented to an Interlocutory Judgement being recorded on the Defendants’ liability with damages to be assessed by the Court. The Plaintiffs shall be permitted to enforce any final judgement entered after the assessment of damages, upon recovering all claims from the QP and MOQ projects and proceeds from the sale of the derrick lay barge, or after the expiry of 3 years from the date of final judgement, whichever is earlier.

The Plaintiffs have filed a Notice of Application for directions to assess damages. The hearing date which was initially fixed from 22 to 25 October 2019, has been postponed to 21 and 22 January 2020, 25 and 26 March 2020.

b) Bakun Hydroelectric Project (“Bakun Project”) and the Indemnity Agreement Civil Suit (“Bakun Suit”)

On 24 December 2010, Sime Darby Berhad and three subsidiaries (collectively, “the Plaintiffs”) filed a civil suit against Dato’ Seri Ahmad Zubair @ Ahmad Zubir Hj Murshid, Dato’ Mohamad Shukri Baharom (“DMS”) and Abdul Rahim Ismail (collectively, “the Defendants”) for damages in connection with the Defendants’ negligence and breaches of duty relating to the Package CW2-Main Civil Works for the Bakun Project and in respect of the Receipt, Discharge and Indemnity Agreement dated 12 January 2010 given to DMS for an aggregate amount of RM91 million together with general and aggravated damages to be assessed and other relief.

On 13 June 2014, all the Defendants consented to an Interlocutory Judgement being recorded on the Defendants’ liability and for damages to be assessed by the Court. The Plaintiffs shall be permitted to enforce any final judgement entered after the assessment of damages, upon the Malaysia-China Hydro Joint Venture receiving full settlement from Sarawak Hidro Sdn Bhd or the Ministry of Finance in relation to the Bakun Project, or after the expiry of 3 years from the date of final judgement, whichever is earlier.

The Plaintiffs have filed a Notice of Application for directions to assess damages. The Registrar directed that the Plaintiffs’ application for assessment of damages for the Oil & Gas Suit and the Bakun Suit be heard separately and that the assessment of damages for the Oil & Gas Suit will be heard first before the Bakun Suit.

B10. Material Litigation (continued)

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 November 2019 are as follows: (continued)

c) Emirates International Energy Services (“EMAS”)

On 13 January 2011, EMAS filed a civil suit in Abu Dhabi against Sime Darby Engineering Sdn Bhd (“SDE”) claiming payment of USD178 million (approximately RM740 million) comprising a payment of USD128 million (approximately RM532 million) for commissions; and a payment of USD50 million (approximately RM208 million) as “morale compensation”.

EMAS was unsuccessful in its claim against SDE in Abu Dhabi, and subsequently on 24 January 2016 submitted a request for arbitration against SDE to the Dubai Chamber of Commerce and Industry, claiming an amount of AED41 million (approximately RM46.4 million).

On 23 December 2018, the arbitration tribunal rejected all claims by EMAS against SDE and ordered EMAS to pay for SDE’s portion of the arbitration costs and the tribunal fees and expenses.

On 7 April 2019, EMAS filed an application at the Abu Dhabi Court of Appeal (“COA”) to seek the annulment of the tribunal award on the basis that the award was issued beyond the tribunal’s mandated time to which SDE filed an objection. The hearing was completed on 19 September 2019. On 8 October 2019, the COA rendered its judgement and dismissed EMAS’ appeal. EMAS has the right to appeal to the Court of Cassation within 60 days.

d) Claim against Qatar Petroleum (“QP”)

On 15 August 2012, Sime Darby Engineering Sdn Bhd (“SDE”) filed a Statement of Claim at the Qatar Court against QP for the sum of QAR1 billion (approximately RM1.1 billion) seeking the repayment of a liquidated performance bond, payment of outstanding invoices, compensation and additional costs incurred in relation to an offshore engineering project in Qatar undertaken by SDE pursuant to a contract dated 27 September 2006.

On 21 July 2016, the Court ordered QP to pay QAR12.9 million (approximately RM14.6 million) to SDE (“Judgement”) and both parties have appealed to the Court of Appeal against the Judgement. The Court of Appeal then referred the matter to court experts to examine the appeal.

The experts in their report recommended the payment of QAR12.9 million (approximately RM14.6 million) to SDE. On 28 April 2019, both SDE and QP filed an application to challenge the experts’ report.

The Court of Appeal issued its judgement on 29 July 2019, rejecting both parties’ appeals. Parties have the right to submit an appeal within 60 days thereafter. Both parties did not file an appeal. As such, the Judgement for QP to pay SDE the sum of QAR12.9 million is final and binding.

e) B-193 Process Platform Project (“PP Project”)

SDE and Swiber Offshore Construction Pte Ltd (“SOC”) entered into a Consortium Agreement to govern their relationship as a consortium (“the Consortium”) to undertake works relating to the PP Project awarded by Oil and Natural Gas Corporation Ltd (“ONGC”). A contract dated 3 July 2010 was executed for a total contract price of USD618 million (approximately RM2.6 billion).

Disputes have arisen between the Consortium and ONGC and on 1 June 2016, the Consortium initiated arbitration proceedings against ONGC. SDE’s portion of the Consortium’s claim is circa USD76 million (approximately RM316 million).

On 22 March 2018, the tribunal ordered ONGC to pay the Consortium a net sum of USD5.12 million (approximately RM21 million) as full and final settlement of all claims. On 27 March 2018, ONGC filed an application at the High Court in Mumbai, India to set aside the arbitration award.

The Court allowed ONGC to amend its application to set aside the arbitration award and granted ONGC an extension until 30 September 2019 for ONGC to submit its amended application. No hearing date has been fixed.

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B10. Material Litigation (continued)

Changes in material litigation since the date of the last audited annual statement of financial position up to 20 November 2019 are as follows: (continued)

f) CCCC Tianjin Dredging Co., Ltd. v Weifang Port Services Co., Ltd. and Weifang Port Group Co., Ltd.

Weifang Port Services Co., Ltd. (“WPS”) is a joint venture company between Weifang Port Group Co., Ltd. (“WPG”) (38%), Weifang Sime Darby Port Co., Ltd. (“WSDP”) (37%) and Shandong Hi-speed Transport & Logistics Investment Co., Ltd. (25%). WSDP is an indirect 99% owned subsidiary of Sime Darby Berhad.

CCCC Tianjin Dredging Co., Ltd. (“Tianjin Dredging”) was engaged to construct a 35,000 deadweight tonne (“DWT”) main channel in Weifang, Shandong Province, People’s Republic of China (the “Project”). Under the terms of engagement, both WPG and WPS are jointly liable for any payments due to Tianjin Dredging.

The Project was completed in November 2016 at total cost of approximately RMB1.17 billion (approximately RM692 million).

On 31 July 2018, Tianjin Dredging (the “Plaintiff”) filed a lawsuit in the Qingdao Maritime Court against WPS (“First Defendant”) and WPG (“Second Defendant”) claiming the outstanding sum of the RMB741 million (approximately RM438 million) plus interest, in addition to legal costs and costs for preservation of assets.

On 26 July 2019, WPS received the Court’s decision which was in favour of the Plaintiff. The Court ordered for the Defendants to pay the Plaintiff the outstanding sum of RMB711 million (approximately RM421 million) (“Outstanding Sum”), costs of RMB3.6 million (approximately RM2.1 million) and late payment interests. WPS filed an appeal against the Court’s decision on 7 August 2019 to dispute the calculation of late payment interests.

The Plaintiff had filed a second lawsuit against WPS, WPG and subsidiaries of WPS (Weifang Port Operating Management Co. Ltd and Weifang Port Dredging Project Co. Ltd) for the Court to confirm its right of first claim with respect to auction proceeds (from the sale of assets owned by WPS and its subsidiaries) and for litigation costs to be borne by the Defendants.

On 30 October 2019, the Plaintiff amended its claim for the Court to confirm its right of first claim with respect to part of the auction proceeds (from the sale of sea use rights owned by WPS and its subsidiaries), which is equivalent to the value of the mud / soil used to reclaim the land. The next hearing date has not been fixed.

B11. Dividend

On 27 August 2019, the Board declared a second interim dividend and a special dividend in respect of the financial year ended 30 June 2019, which was paid on 31 October 2019.

The total declared dividends are as follows:

	Per share (sen)	Total dividends
Second interim dividend	7.0	476
Special dividend	1.0	68
	<u>8.0</u>	<u>544</u>

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B12. Earnings Per Share

	Quarter ended 30 September	
	2019	2018
Basic earnings per share attributable to owners of the Company are computed as follows:		
Profit attributable to owners of the Company	<u>246</u>	<u>225</u>
Weighted average number of ordinary shares in issue (million)	<u>6,801</u>	<u>6,801</u>
Basic earnings per share (sen)	<u>3.6</u>	<u>3.3</u>

The diluted earnings per share of the Group is similar to the basic earnings per share as the Group does not have any material potential dilutive ordinary shares in issue.

B13. Comparatives

The Group has restated the financials for the quarter ended 30 September 2018 to conform with the audited accounts for the financial year ended 30 June 2019 which include the following:

- a) reversal of impairment of receivables previously in other operating income is now included in operating expenses;
- b) accrued interest relating to a loan to a joint venture measured at fair value through profit or loss previously reported in interest income is now accounted together with the change in fair value in other gains and losses;
- c) effects of adoption of MFRS 9 in the statement of changes in equity have been restated to reflect the amounts as presented in the audited accounts for the financial year ended 30 June 2019.

The restatements did not impact the statement of comprehensive income.

Petaling Jaya
26 November 2019

By Order of the Board
Noor Zita Hassan
Group Secretary