



XingHe Holdings Berhad

(Company No. 643114-X)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JULY 2016 TO 30 SEPTEMBER 2016

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XingHe Holdings Berhad

(Company No. 643114-X)

(Incorporated in Malaysia)

Interim Financial Statements for the Financial Period Ended 30 September 2016

Consolidated Statement of Profit or Loss (Unaudited)

	Note	Individual Period		Cumulative Period	
		Current Period from 1 Jul 2016 to 30 Sept 2016 RM'000	Preceding Corresponding Period from 1 Jul 2015 to 30 Sept 2015 RM'000	Current Period from 1 Jan 2016 to 30 Sept 2016 RM'000	Preceding Corresponding Period from 1 Jan 2015 to 30 Sept 2015 RM'000
Revenue	A4	71,152	244,552	459,452	872,511
Cost of sales		(64,182)	(208,936)	(410,499)	(727,226)
Gross profit		6,970	35,616	48,953	145,285
Other income		209	4,779	734	8,635
Selling and distribution costs		(5,615)	(6,980)	(15,076)	(34,594)
Administrative expenses		(3,740)	(6,691)	(16,991)	(16,830)
Finance costs		(494)	(520)	(1,493)	(1,462)
(Loss)/Profit before tax	B11	(2,670)	26,204	16,127	101,034
Tax expense	B5	482	(6,649)	(6,101)	(24,857)
(Loss)/Profit for the period		(2,188)	19,555	10,026	76,177
Attributable to:					
Owners of the Company		(1,914)	18,054	8,446	69,823
Non-controlling interest		(274)	1,501	1,580	6,354
		(2,188)	19,555	10,026	76,177
(Loss)/Earnings per share attributable to owners of the Company					
- Basic (sen)	B10	(0.08)	0.77	0.36	2.97

The Consolidated Statement of Profit or Loss should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statements.

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Consolidated Statement of Other Comprehensive Income (Unaudited)

	Individual Period		Cumulative Period	
	Current Period from 1 Jul 2016 to 30 Sept 2016 RM'000	Preceding Corresponding Period from 1 Jul 2015 to 30Sept 2015 RM'000	Current Period from 1 Jan 2016 to 30 Sept 2016 RM'000	Preceding Corresponding Period from 1 Jan 2015 to 30 Sept 2015 RM'000
(Loss)/Profit for the period	(2,188)	19,555	10,026	76,177
Other comprehensive (loss)/income				
Foreign currency translation	11,651	55,084	(28,970)	85,024
Total comprehensive income/(loss) for the period	9,463	74,639	(18,944)	161,201
Attributable to:				
Owners of the Company	9,744	73,642	(20,629)	155,539
Non-controlling interest	(281)	997	1,685	5,662
	9,463	74,639	(18,944)	161,201

The Consolidated Statement of Other Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statements.

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Consolidated Statement of Financial Position

	Note	30 Sept 2016 RM'000 Unaudited	31 Dec 2015 RM'000 Audited
NON-CURRENT ASSETS			
Property, plant and equipment		19,162	22,301
Land use rights		10,026	12,993
		29,188	35,294
CURRENT ASSETS			
Inventories		32,994	20,165
Advances for peanut purchases		68,152	72,774
Trade and other receivables		253,879	256,194
Current tax assets		1,792	9
Cash and bank balances		161,953	199,142
		518,770	548,284
TOTAL ASSETS		547,958	583,578
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	A9	234,850	234,850
Reserves		233,658	254,287
		468,508	489,137
Equity attributable to owners of the Company		468,508	489,137
Non-controlling interest		42,008	40,323
TOTAL EQUITY		510,516	529,460
NON-CURRENT LIABILITIES			
Trade and other payables		3,254	3,475
Borrowings	B7	-	27,786
Deferred tax liabilities		693	1,890
		3,947	33,151
CURRENT LIABILITIES			
Trade and other payables		2,577	13,678
Borrowings	B7	26,022	-
Amount due to directors		3,677	2,289
Government grant		1,219	1,487
Current tax liabilities		-	3,513
		33,495	20,967
TOTAL LIABILITIES		37,442	54,118
TOTAL EQUITY AND LIABILITIES		547,958	583,578

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Consolidated Statement of Financial Position (Continued)

	30 Sept 2016	31 Dec 2015
	Unaudited	Audited
Net assets per share (sen)	21.7	22.5

The Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statements.

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Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to the owners of the Company							Total	Non-controlling Interests	Total
	Share capital	Share premium	Capital reserve	Statutory reserve	Reverse acquisition reserve	Exchange translation reserve	Retained earnings			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2015	234,850	50,409	3,983	18,901	(154,550)	34,180	161,449	349,222	29,728	378,950
Transactions with owners										
Dividend paid	-	-	-	-	-	-	(4,697)	(4,697)	-	(4,697)
Dividend paid to non-controlling interest of a subsidiary	-	-	-	-	-	-	-	-	(2,039)	(2,039)
Profit for the period	-	-	-	-	-	-	69,823	69,823	6,354	76,177
Foreign currency translation	-	-	-	-	-	85,716	-	85,716	(692)	85,024
Total comprehensive income	-	-	-	-	-	85,716	69,823	155,539	5,662	161,201
At 30 Sept 2015	234,850	50,409	3,983	18,901	(154,550)	119,896	226,575	500,064	33,351	533,415
At 1 January 2016	234,850	50,409	3,983	18,901	(154,550)	93,779	241,765	489,137	40,323	529,460
Profit for the period	-	-	-	-	-	-	8,446	8,446	1,580	10,026
Foreign currency translation	-	-	-	-	-	(29,075)	-	(29,075)	105	(28,970)
Total comprehensive (loss)/income	-	-	-	-	-	(29,075)	8,446	(20,629)	1,685	(18,944)
At 30 Sept 2016	234,850	50,409	3,983	18,901	(154,550)	64,704	250,211	468,508	42,008	510,516

The Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statements.

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Consolidated Statement of Cash Flows (Unaudited)

	Current Period from 1 Jan 2016 to 30 Sept 2016 RM'000	Preceding Period from 1 Jan 2015 to 30 Sept 2015 RM'000
Cash flows from operating activities		
Profit before tax	16,127	101,034
Adjustments for:		
Finance costs	1,493	1,462
Interest income	(472)	(640)
Amortisation of government grant	(262)	(257)
Depreciation of property, plant and equipment	1,965	2,475
Amortisation of land use rights	270	276
Unrealised foreign exchange loss/(gain)	5,797	(7,738)
Operating profit before working capital changes	24,918	96,612
Changes in working capital		
Inventories	(14,110)	21,795
Trade and other receivables	(21,483)	160,631
Trade and other payables	(1,668)	(106,197)
Cash flows (used in)/generated from operations	(12,343)	172,841
Interest paid	(1,493)	(1,462)
Tax paid	(14,277)	(27,438)
Net cash (used in)/generated from operating activities	(28,113)	143,941
Cash flows from investing activities		
Purchase of property, plant and equipment	(239)	(518)
Interest income	472	640
Net cash generated from investing activities	233	122
Cash flows from financing activities		
Dividend paid	-	(4,697)
Withholding tax paid	-	(1,006)
Net cash used in financing activities	-	(5,703)
Net (decrease)/increase in cash and cash equivalents	(27,880)	138,360
Effects of exchange rate changes on cash and cash equivalents	(9,309)	41,979
Cash and cash equivalents at beginning of period	199,142	192,931
Cash and cash equivalents at end of period	161,953	373,270

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Consolidated Statement of Cash Flows(Unaudited) (Continued)

	Current Period from 1 Jan 2016 to 30 Sept 2016 RM'000	Preceding Period from 1 Jan 2015 to 30 Sept 2015 RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	161,953	373,270

The Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and the accompanying explanatory notes attached to this interim financial statements.

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A NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

A1 Basis of preparation

The interim financial statements is unaudited and has been prepared in accordance with the requirements of the Malaysian Financial Reporting Standard (“MFRS”) 134: Interim Financial Reporting and Rule 9.22 of the ACE Market Listing Requirements (“Listing Requirements”) of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2015 and these explanatory notes attached to the interim financial statements.

These explanatory notes 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 31 December 2015.

The accounting policies and methods of computation used in the interim financial statements are consistent with those adopted in the audited financial statements of the Group for the financial year ended 31 December 2015 except for the changes in accounting policies and presentation resulting from the adoption of new and revised MFRSs and amendments to MFRSs that are effective for financial periods beginning on or after 1 January 2016.

A2 Significant Accounting Policies

The Group has not adopted the following new MFRSs and amendments to MFRSs issued by the Malaysian Accounting Standards Board:

Title	Effective Date
Amendments to MFRS 107 <i>Disclosure Initiative</i>	1 January 2017
Amendments to MFRS 112 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i>	1 January 2017
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS 9 as issued by IASB in July 2014)</i>	1 January 2018
MFRS 16 <i>Leases</i>	1 January 2019

The possible impact on the adoption of above pronouncements in the period of initial application cannot be determined at present.

A3 Auditors’ report on preceding annual financial statements

The auditors’ report on the financial statements for the financial year ended 31 December 2015 was not qualified.

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A4 Segment information

The Group has two reportable segments:

- (a) Branded products – peanut oil, blended oil, repackaged soybean oil and corn oil; and
- (b) Non-branded products – non-branded peanut oil and peanut protein cake (a by-product).

As the Group's chief decision maker relies on internal reports which are similar to those currently disclosed externally, no further segment analysis is available for disclosure except for the following entity-wide disclosures as required by MFRS 8:

	Individual Period		Cumulative Period	
	Current Period from 1 Jul 2016 to 30 Sept 2016 RM'000	Preceding Corresponding Period from 1 Jul 2015 to 30 Sept 2015 RM'000	Current Period from 1 Jan 2016 to 30 Sept 2016 RM'000	Preceding Corresponding Period from 1 Jan 2015 to 30 Sept 2015 RM'000
Revenue by products				
Revenue				
Branded products	25,154	101,629	148,330	357,551
Non-branded products	45,998	142,923	311,122	514,960
	71,152	244,552	459,452	872,511
Gross profit by products				
Gross Profit				
Branded products	2,727	21,892	23,022	82,110
Non-branded products	4,243	13,724	25,931	63,175
	6,970	35,616	48,953	145,285

The Group's assets and liabilities are managed on a group-wide basis and are not allocated to any of the operating segments.

The Group's business is entirely operated within the People's Republic of China ("PRC"), and as such, segment information based on the geographical location of customers is not presented.

A5 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 current financial year-to-date.

A6 Changes in estimates

There were no changes in estimates of amounts reported in a prior financial quarter of the current financial year or a prior financial year that have a material effect on the current financial year-to-date.

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A7 Seasonality or cyclicity of operations

Peanut (the Group's primary input raw material) is an agricultural product and as such, its availability is determined by seasonality, weather conditions as well as other environmental factors. The Group's product lines which also include soybean oil and corn oil in addition to peanut oil to a certain degree reduce the seasonal and cyclicity effects.

A8 Dividends paid

No dividends were paid during the current financial year-to-date.

A9 Debt and equity securities

There were no issuances, cancellations, repurchases, resales and repayments of debt and equity securities during the current financial year-to-date.

A10 Changes in the composition of the Group

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

A11 Capital commitments

At the end of the current financial quarter, the Group has no capital commitments.

A12 Contingent liabilities and contingent assets

The Group has no contingent liabilities or contingent assets since the end of the previous financial year.

A13 Material events subsequent to the end of the current financial quarter

There were no material events subsequent to the end of the current financial quarter, which have not been reflected in the interim financial statements.

A14 Significant related party transactions

The Group has no significant related party transactions during the current financial year-to-date.

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B ADDITIONAL INFORMATION REQUIRED BY THE ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1 Review of performance

The Group recorded revenue of RM71.2 million and RM459.5 million for the current financial quarter (“CFQ”) and year-to-date (“YTD”) respectively. The Group’s gross profit margins for the CFQ and YTD were 9.8% and 10.7% respectively. These margins were much lower than those of 14.3% and 16.7% achieved for the respective corresponding periods last year.

The decrease in the CFQ’s gross profit year-on-year (“YoY”) was mainly caused by a drop of 17.5% in the average selling price of branded products [in Renminbi (“RMB”) terms] and the decline in total sales volume by 67.8%. Although the RMB average selling price of non-branded products rose 11.0% YoY, this increase was inadequate to mitigate the loss in revenue arising from the overall drop in volume. In RM terms, the YoY’s drop in the average selling price for branded products was 24.5% while the average selling price of non-branded products was more or less the same YoY. These differentials between the changes in RMB and RM selling prices was due to the YoY’s appreciation of RM against RMB.

The above declines in selling prices and sales volume were mainly caused by reduced demand for the Group’s products amid the slowing economy in PRC as well as the loss of some major customers due to price competition. The conversion of the Group’s peanut oil extraction machines to use natural gas which started in August 2016 also contributed to the reduced volume due to loss in productivity.

As a consequence of the above, the Group incurred an operating loss of RM2.2 million for the CFQs compared to a pre-tax profit of RM26.2 million for the corresponding financial quarter last year. For the current YTD, profit before tax declined by 84.0% YoY to RM16.1 million.

B2 Comments on material changes in profit before taxation

The reasons as detailed in Note B1 above caused the Group’s revenue for the CFQ to decrease to RM71.2 million from that of RM93.0 million in the preceding financial quarter.

At the operating level and quarter-on-quarter (“QoQ”), the sales volume of non-branded products was down by 51.0% while that of branded products was higher by 61.5%. Overall volume sold was 40.9% lower QoQ. On a positive note, the average selling price (in RMB terms) of non-branded products during the CFQ was higher by 19.3% QoQ while that of branded products was more or less the same as per the previous financial quarter.

The improved selling prices of non-branded products (constituting 75.3% of gross volume sold during the CFQ) QoQ caused the gross profit margin to improve from 6.4% in the preceding financial quarter to 9.8% for the CFQ. This together with lower net operating expenses QoQ caused the operating loss for the CFQ to decrease to RM2.7 million from that of RM4.7 million in the preceding financial quarter.

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B3 Commentary on prospects

PRC's economy grew 6.7% and a seasonally 1.8% QoQ in the third quarter of 2016 (based on data from National Bureau of Statistics of China). Despite these steady growth numbers, economists are expecting headwinds for PRC's economy in the coming year due to growing uncertainties in external demand, cooling measures on the housing market and signs of weaker growth in industrial output.

The conversion of the peanut oil conversion machines to use natural gas as mentioned in Note B1 is taking longer than expected and is anticipated to be completed in the first quarter of the next financial year. This has already resulted in productivity loss during the CFQ and will continue to do so until it is completed.

For the first nine months of the current financial year, RM has strengthened 6.0% against RMB. As the Group's operations are based entirely in PRC and all its transactions denominated in RMB, ceteris paribus, the RMB parity with RM in the final quarter of the current financial year will have an impact on the Group's results for the period concerned. As of 15 November 2016, RM has weakened about 1.7% against RMB since the end of the CFQ.

Premised on the above, the Group envisaged that the operating conditions for the final quarter of the current financial year will continue to be difficult. Nonetheless, the Group's performance for the said quarter is expected to improve due to stocking-up by customers for the forthcoming Chinese New Year's festivities. Barring unforeseen circumstances, the performance of the final quarter should better those of the last two preceding financial quarters. However, it is not expected to better the performance YoY.

B4 Profit forecast or profit guarantee

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

B5 Tax expense

	Individual current quarter from 1 Jul 2016 to 30 Sept 2016 RM'000	Cumulative current year-to-date from 1 Jan 2016 to 30 Sept 2016 RM'000
PRC income tax:		
Current quarter/year expense:		6,101
Over provision in prior quarter	(482)	-
	(482)	6,101
Effective PRC income tax rate	-	37.8%

The differential between the Group's effective PRC income tax rate for the current year-to-date with the applicable PRC's income tax rate of 25% is mainly due to the non-deductibility of unrealised foreign exchange loss for tax purposes and losses incurred by the Company and certain subsidiary companies not available for set-off against taxable profit of a subsidiary company.

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B6 Status of corporate proposals announced

There were no corporate proposals announced but not completed as at 23 November 2016.

B7 Borrowings and debt securities

The Group's borrowings as at 30 September 2016 are as follows:

	RM'000
CURRENT	
Unsecured borrowings	26,022

All borrowings are denominated in RMB, the functional currency of the primary operating subsidiary in the PRC.

B8 Material litigation

The Group has no material litigation pending as of 23 November 2016.

B9 Dividends payable

No dividend has been declared or recommended for the current financial year-to-date.

B10 Earnings per share

(a) Basic loss/earnings per share

The basic loss per share of 0.08 sen for the current financial quarter and basic earnings per share of 0.36 sen for the current financial year-to-date were derived as follows:

	Individual current quarter from 1 Jul 2016 to 30 Sept 2016	Cumulative current year-to-date from 1 Jan 2016 to 30 Sept 2016
Loss/earnings for the period attributable to owners of the Company (RM'000)	(1,914)	8,446
Weighted average number of ordinary shares in issue ('000)	2,348,500	2,348,500

(b) Diluted loss/earnings per share

The diluted loss/earnings per share is the same as the basic loss/earnings per share as the average market price of the ordinary shares during the current financial quarter was lower than the exercise price of the warrants and accordingly, the effect of the assumed conversion of warrants outstanding will be anti-dilutive and the Company has no other dilutive potential ordinary shares in issue as at the end of the current financial quarter.

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B11 Profit before tax

Profit before tax is derived after taking into account of the following income/(expenses) items:

	Individual current quarter from 1 Jul 2016 to 30 Sept 2016 RM'000	Cumulative current year-to-date from 1 Jan 2016 to 30 Sept 2016 RM'000
Interest income	122	472
Government grant	87	262
Other income	-	-
Interest expenses	(494)	(1,493)
Depreciation of property, plant and equipment	(642)	(1,965)
Amortisation of land use rights	(82)	(270)
Provision for and write off of receivables	-	-
Provision for and write off of inventories	-	-
Gain or loss on disposal of quoted or unquoted investments or properties	-	-
Impairment of assets	-	-
Gain or loss on derivatives	-	-
Net foreign exchange gain or (loss)	1,340	(5,797)
Exceptional items (with details)	-	-

B12 Supplementary information disclosed pursuant to Listing Requirements

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 the Listing Requirements, issued by the Malaysian Institute of Accountants:

	As at 30 Sept 2016 RM'000	As at 31 Dec 2015 RM'000
Total retained earnings of the Group		
- Realised	237,751	234,024
- Unrealised	6,490	1,771
	244,241	235,795
Consolidation adjustments	5,970	5,970
	250,211	241,765

The above disclosure is solely for complying with the disclosure requirement as stipulated in the directive of Bursa Securities and should not be applied for any other purposes.

By Order of the Board

Datuk Tan Leh Kiah
Lim Chien Joo (Ms)
Company Secretaries

30 November 2016