



XingHe Holdings Berhad

(Company No. 643114-X)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 OCTOBER 2016 TO 31 DECEMBER 2016

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XingHe Holdings Berhad

(Company No. 643114-X)

(Incorporated in Malaysia)

Interim Financial Statements for the Financial Period Ended 31 December 2016

Consolidated Statement of Profit or Loss

	Note	Individual Period		Cumulative Period	
		Current Period from 1 Oct 2016 to 31 Dec 2016 RM'000 (Unaudited)	Preceding Corresponding Period from 1 Oct 2015 to 31 Dec 2015* RM'000 (Unaudited)	Current Period from 1 Jan 2016 to 31 Dec 2016 RM'000 (Unaudited)	Preceding Corresponding Period from 1 Jan 2015 to 31 Dec 2015 RM'000 (Audited)
Revenue	A4	308,605	269,701	768,057	1,142,212
Cost of sales		(276,292)	(234,177)	(686,791)	(961,403)
Gross profit		32,313	35,524	81,266	180,809
Other income/(expense)		209	(3,703)	943	4,932
Selling and distribution costs		(3,754)	(4,683)	(18,830)	(39,277)
Administrative expenses		(5,220)	(2,032)	(22,211)	(18,862)
Finance costs		(975)	(997)	(2,468)	(2,459)
Profit before tax	B11	22,573	24,109	38,700	125,143
Tax expense	B5	(5,740)	(7,093)	(11,841)	(31,950)
Profit for the period		16,833	17,016	26,859	93,193
Attributable to:					
Owners of the Company		15,160	15,190	23,606	85,013
Non-controlling interest		1,673	1,826	3,253	8,180
		16,833	17,016	26,859	93,193
Earnings per share attributable to owners of the Company					
- Basic (sen)	B10	0.646	0.647	1.005	3.620

* Certain line items for these comparative figures reported previously have been adjusted to incorporate adjustments arising from the audit for the financial year ended 31 December 2015

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

	Individual Period		Cumulative Period	
	Current Period from 1 Oct 2016 to 31 Dec 2016 RM'000 (Unaudited)	Preceding Corresponding Period from 1 Oct 2015 to 31 Dec 2015* RM'000 (Unaudited)	Current Period from 1 Jan 2016 to 31 Dec 2016 RM'000 (Unaudited)	Preceding Corresponding Period from 1 Jan 2015 to 31 Dec 2015 RM'000 (Audited)
Profit for the period	16,833	17,016	26,859	93,193
Other comprehensive (loss)/income				
Foreign currency translation	21,044	(20,814)	(7,926)	64,210
Total comprehensive income/(loss) for the period	37,877	(3,798)	18,933	157,403
Attributable to:				
Owners of the Company	36,115	(10,927)	15,486	144,612
Non-controlling interest	1,762	7,129	3,447	12,791
	37,877	(3,798)	18,933	157,403

* Certain line items for these comparative figures reported previously have been adjusted to incorporate adjustments arising from the audit for the financial year ended 31 December 2015

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	31 Dec 2016 RM'000 (Unaudited)	31 Dec 2015 RM'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		19,674	22,301
Land use rights		9,905	12,993
		29,579	35,294
CURRENT ASSETS			
Inventories		12,777	20,165
Advances for peanut purchases		70,951	72,774
Trade and other receivables		404,509	256,194
Current tax assets		9	9
Cash and bank balances		77,545	199,142
		565,791	548,284
TOTAL ASSETS		595,370	583,578
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		234,850	234,850
Reserves		269,773	254,287
		504,623	489,137
Equity attributable to owners of the Company		504,623	489,137
Non-controlling interest		43,770	40,323
TOTAL EQUITY		548,393	529,460
NON-CURRENT LIABILITIES			
Trade and other payables		3,388	3,475
Borrowings	B7	-	27,786
Deferred tax liabilities		1,573	1,890
		4,961	33,151
CURRENT LIABILITIES			
Trade and other payables		5,731	13,678
Borrowings	B7	27,090	-
Amount due to directors		4,474	2,289
Government grant		1,087	1,487
Current tax liabilities		3,634	3,513
		42,016	20,967
TOTAL LIABILITIES		46,977	54,118
TOTAL EQUITY AND LIABILITIES		595,370	583,578

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Consolidated Statement of Financial Position (Continued)

	31 Dec 2016 (Unaudited)	31 Dec 2015 (Audited)
Net assets per share (sen)	23.4	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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Interim Financial Statements for the Financial Period Ended 31 December 2016

Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company								Non-controlling Interests	Total
	Share capital	Share premium	Capital reserve	Statutory reserves			Retained earnings	Total		
				Reserve	Reverse acquisition	Exchange translation				
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Audited										
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	-	-	-	-	-	-	-	-	(2,196)	(2,196)
Profit for the year	-	-	-	-	-	-	85,013	85,013	8,180	93,193
Foreign currency translation	-	-	-	-	-	59,599	-	59,599	4,611	64,210
Total comprehensive income	-	-	-	-	-	59,599	85,013	144,612	12,791	157,403
At 31 December 2015	234,850	50,409	3,983	18,901	(154,550)	93,779	241,765	489,137	40,323	529,460
Unaudited										
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 year	-	-	-	-	-	-	23,606	23,606	3,253	26,859
Foreign currency translation	-	-	-	-	-	(8,120)	-	(8,120)	194	(7,926)
Total comprehensive (loss)/income	-	-	-	-	-	(8,120)	23,606	15,486	3,447	18,933
At 31 December 2016	234,850	50,409	3,983	18,901	(154,550)	85,659	265,371	504,623	43,770	548,393

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

	Current Period from 1 Jan 2016 to 31 Dec 2016 RM'000 (Unaudited)	Preceding Period from 1 Jan 2015 to 31 Dec 2015 RM'000 (Audited)
Cash flows from operating activities		
Profit before tax	38,700	125,143
Adjustments for:		
Finance costs	2,468	2,459
Interest income	(592)	(921)
Amortisation of government grant	(351)	(350)
Depreciation of property, plant and equipment	2,656	3,194
Amortisation of land use rights	378	377
Unrealised foreign exchange loss/(gain)	7,204	(3,660)
Operating profit before working capital changes	50,463	126,242
Changes in working capital		
Inventories	6,883	14,406
Advances for peanut purchases	-	(59,542)
Trade and other receivables	(137,554)	(7,841)
Trade and other payables	(22,338)	(56,888)
Cash flows (used in)/generated from operations	(102,546)	16,377
Interest paid	(2,000)	(1,991)
Tax paid	(13,806)	(28,740)
Net cash used in operating activities	(118,352)	(14,354)
Cash flows from investing activities		
Purchase of property, plant and equipment	(675)	(530)
Interest income	592	921
Net cash (used in)/generated from investing activities	(83)	391
Cash flows from financing activities		
Dividend paid	-	(4,697)
Dividend paid to non-controlling interest	-	(2,196)
Withholding tax paid	-	(1,167)
Net cash used in financing activities	-	(8,060)
Net decrease in cash and cash equivalents	(118,435)	(22,023)
Effects of exchange rate changes on cash and cash equivalents	(3,162)	28,234
Cash and cash equivalents at beginning of year	199,142	192,931
Cash and cash equivalents at end of year	77,545	199,142

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Consolidated Statement of Cash Flows(Continued)

	Current Period from 1 Jan 2016 to 31Dec 2016 RM'000 (Unaudited)	Preceding Period from 1 Jan 2015 to 31Dec 2015 RM'000 (Audited)
Cash and cash equivalents comprise the following:		
Cash and bank balances	77,545	199,142

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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Interim Financial Statements for the Financial Period Ended 31 December 2016

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 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2017
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
Amendments to MFRS 1 <i>First-Time Adoption of Malaysian Financial Reporting Standard</i>	1 January 2018
Amendments to MFRS 2 <i>Classification and Measurement of Share-Based Payment Transaction</i>	1 January 2018
Amendments to MFRS 128 <i>Investments in Associates and Joint Venture</i>	1 January 2018
Amendments to MFRS 140 <i>Transfers of Investment Property</i>	1 January 2018
MFRS 9 <i>Financial Instruments (IFRS 9 as issued by IASB in July 2014)</i>	1 January 2018
MFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to MFRS 15	1 January 2018
IC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
MFRS 16 <i>Leases</i>	1 January 2019
Amendments to MFRS 4 <i>Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts</i>	See MFRS 4 Paragraphs 46 and 48

MFRS 2, 4, 128 and 140 are not applicable to the Group’s existing operations.

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The possible impact on the adoption of above pronouncements, which are applicable to the Group's operations at present, 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.

A4 Segment information

The Group has two reportable segments:

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

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 Oct 2016 to 31 Dec 2016 RM'000	Preceding Corresponding Period from 1 Oct 2015 to 31 Dec 2015 RM'000	Current Period from 1 Jan 2016 to 31 Dec 2016 RM'000	Preceding Corresponding Period from 1 Jan 2015 to 31 Dec 2015 RM'000
Revenue by product				
Revenue				
Branded products	92,699	108,263	241,029	465,814
Non-branded products	99,941	127,031	327,643	505,731
Others	115,965	34,407	199,385	170,667
	308,605	269,701	768,057	1,142,212
Gross margin by products				
Gross profit/(loss)				
Branded products	14,444	20,592	37,466	102,702
Non-branded products	17,000	13,904	48,127	72,170
Others	869	1,028	(4,327)	5,937
	32,313	35,524	81,266	180,809

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.

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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.

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.

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.

A9 Debt and equity securities

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

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.

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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 RM308.6 million and RM768.1 million for the current financial quarter (“CFQ”) and year (“CFY”) respectively. Included in the CFQ’s revenue was RM83.2 million being proceeds from the sale of raw peanuts which were surplus to current production requirements. These peanuts were sold at their near cost of purchase.

The Group’s gross profit margins for the CFQ and CFY were 10.5% and 10.6% respectively. These margins were much lower than those of 13.2% and 15.8% achieved for the respective corresponding periods last year. However, if the raw peanut sales and its related purchase cost as mentioned above were excluded, the CFQ’s and CFY’s gross profit margins would be higher at 14.4% and 11.9% respectively.

The average selling price [in Renminbi (“RMB”) terms] of non-branded peanut oil, one of the Group’s major products, for the CFQ was marginally higher YoY. This together with stable RMB average selling prices YoY for other significant products (except for that of branded peanut oil which decreased 9.1% YoY) such as peanut protein cake and branded blended non-peanut oil contributed to the improved gross profit margin (ex-raw peanuts). As all of the Group’s sales were denominated in RMB, the 3.7% appreciation of RMB against RM during the CFQ was a major contributor to the improved gross profit margin.

For the CFY’s gross profit margin (ex-raw peanuts), the decrease from 15.8% to 11.9% was mainly caused by lower average selling prices of the Group’s entire products range. The YoY depreciation of the RMB against RM by 6.7% also contributed to the reduced profit margin.

Despite the improved margins during the CFQ, gross profit still fell 9.0% YoY to RM32.3 million for the CFQ. This decline in absolute gross profit was due to the decrease in the sales volume for all of the Group’s products (except for branded blended non-peanut oil which increased 20.9% YoY). This reduction in overall sales volume was 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 increase in the sales volume of branded blended non-peanut oil which is lower end product was dampened by the earlier mentioned 9.1% YoY drop in average selling price of branded peanut oil (a higher end and more significant product) and as such, the overall volume increase was inadequate to enhance the gross profit for the CFQ. The on-going conversion of the peanut oil extraction machines to use natural gas which resulted in loss of productivity was also a contributory factor to the reduced overall sales volume.

As a result of the above, the Group’s pre-tax profit for the CFQ declined to RM22.6 million as compared to a pre-tax profit of RM24.1 million for the corresponding financial quarter last year. For the CFY, profit before tax declined by 69.1% YoY to RM38.7 million. This steep decline in profitability was mainly due to the much lower sales volume and selling prices of all products YoY during the first nine months of the CFY.

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B2 Comments on material changes in profit before taxation

The Group's revenue(ex-raw peanuts) for the CFQ of RM225.4 million was more than treble that of RM71.2 million achieved in the preceding financial quarter.

As RMB average selling prices for the Group's major products such as branded and non-branded peanut oil were only marginally higher quarter-on-quarter ("QoQ"), the increase in revenue was in the main achieved on the back of sales volume increases QoQ for all of the Group's major products.

This improved sales volume is a seasonal effect attributed to higher demand and stocking-up by customers for the Lunar New Year festivities in January/February 2017.

With the net operating expenses more or less the same QoQ, the above increased revenue caused the operating profit for the CFQ to increase to RM22.6 million from an operating loss of RM2.7 million in the preceding financial quarter.

B3 Commentary on prospects

PRC's economy grew 6.8% YoY and a seasonally adjusted 1.7% QoQ in the CFQ (based on data from National Bureau of Statistics of China). Despite these positive growth numbers, Chinese economists opined that the PRC's economy in 2017 still faces risks and uncertainties created by the lack of clarity over the economic policies to be pursued by the new administration in Washington, D.C. The risk of capital outflow from PRC will persist as the US Federal Reserve is likely to continue to raise interest rates in 2017 and as such, PRC's central bank will need to walk a fine line between monetary easing and tightening. A rapid rise in real interest rates in PRC could derail the country's economic recovery.

The conversion of the peanut oil conversion machines to use natural gas which started in August 2016 is anticipated to be completed in the first quarter of the financial year ending 2017 ("FY2017"). This has already resulted in productivity loss during the CFQ and the preceding financial quarter and it will continue to do so until it is completed.

Premised on the above, the Group envisaged that operating conditions for FY2017 will continue to be challenging. Nevertheless, Group is optimistic that it can build on its recovery during the CFQ after experiencing poor results for the second and third financial quarters of the CFY.

In the twelve months to end of the CFY, RM has strengthened about 2.3% 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 FY2017 will also have an impact on the Group's results for FY2017.

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.

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B5 Tax expense

	Individual current quarter from 1 Oct 2016 to 31 Dec 2016 RM'000	Cumulative current year from 1 Jan 2016 to 31Dec 2016 RM'000
PRC income tax:		
Current quarter/year expense:	5,740	11,841
Effective PRC income tax rate	25.4%	30.6%

The differential between the Group's effective PRC income tax rate for the current year 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 which were not available for set-off against taxable profit of the primary operating subsidiary company in PRC.

B6 Status of corporate proposals announced

There were no corporate proposals announced but not completed as at 21February 2017.

B7 Borrowings and debt securities

The Group's borrowings as at the end of the current financial quarter are as follows:

	RM'000
CURRENT	
Unsecured borrowings	27,090

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 21 February 2017.

B9 Dividends payable

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

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B10 Earnings per share

(a) Basic earnings per share

The basic earnings per share of 0.646sen for the current financial quarter and of 1.005sen for the current financial year were derived as follows:

	Individual current quarter from 1 Oct 2016 to 31 Dec 2016	Cumulative current year from 1 Jan 2016 to 31 Dec 2016
Earnings for the period attributable to owners of the Company (RM'000)	15,160	23,606
Weighted average number of ordinary shares in issue ('000)	2,348,500	2,348,500

(b) Diluted earnings per share

The diluted loss/earnings per share is the same as the basic 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.

B11 Profit before tax

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

	Individual current quarter from 1 Oct 2016 to 31 Dec 2016 RM'000	Cumulative current year from 1 Jan 2016 to 31 Dec 2016 RM'000
Interest income	120	592
Amortisation of government grant	89	351
Other income	-	-
Interest expenses	(975)	(2,468)
Depreciation of property, plant and equipment	(691)	(2,656)
Amortisation of land use rights	(108)	(378)
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)	(1,407)	(7,204)
Exceptional items (with details)	-	-

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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 31 Dec 2016	As at 31 Dec 2015
	RM'000	RM'000
Total retained earnings of the Group		
- Realised	280,118	245,964
- Unrealised	(8,777)	1,771
	271,341	247,735
Consolidation adjustments	(5,970)	(5,970)
	265,371	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 LehKiah
Lim Chien Joo (Ms)
Company Secretaries

28 February 2017