



XingHe Holdings Berhad

(Company No. 643114-X)

(Incorporated in Malaysia)

INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL QUARTER FROM 1 APRIL 2019 TO 30 JUNE 2019

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XingHe Holdings Berhad

(Company No. 643114-X)

(Incorporated in Malaysia)

Interim Financial Statements for the Financial Quarter Ended 30 June 2019

Consolidated Statement of Profit or Loss (Unaudited)

| | Note | Individual Period | | Cumulative Period | |
|--|------|---|--|---|--|
| | | Current Period from 1 Apr 2019 to 30 Jun 2019 RM'000 | Preceding Corresponding Period from 1 Apr 2018 to 30 Jun 2018 RM'000 | Current Year from 1 Jan 2019 to 30 Jun 2019 RM'000 | Preceding Corresponding Year from 1 Jan 2018 to 30 Jun 2018 RM'000 |
| Revenue | A4 | 172,270 | 15,058 | 440,726 | 28,972 |
| Cost of sales | | (166,080) | (16,718) | (428,673) | (31,399) |
| Gross profit/(loss) | A4 | 6,190 | (1,660) | 12,053 | (2,427) |
| Other income | | 126 | 560 | 362 | 1,060 |
| Selling and distribution costs | | (517) | (207) | (717) | (547) |
| Administrative expenses | | (1,551) | (1,422) | (3,382) | (3,104) |
| Finance costs | | (2,420) | - | (4,576) | - |
| Unrealised foreign exchange loss | | (3,636) | (6,730) | (1,264) | (1,557) |
| (Loss)/profit before tax | B11 | (1,808) | (9,459) | 2,476 | (6,575) |
| Tax expense | B5 | (548) | (10) | (1,292) | (10) |
| (Loss)/profit for the period | | (2,356) | (9,469) | 1,184 | (6,585) |
| Attributable to: | | | | | |
| Owners of the Company | | (2,520) | (9,186) | 952 | (6,144) |
| Non-controlling interests | | 164 | (283) | 232 | (441) |
| | | (2,356) | (9,469) | 1,184 | (6,585) |
| (Loss)/earnings per share attributable to owners of the Company: | | | | | |
| Basic (sen) | B10 | (0.10) | (0.36) | 0.04 | (0.24) |

The Consolidated Statement of Profit or Loss should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these interim financial statements.

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Consolidated Statement of Other Comprehensive Income (Unaudited)

| | Individual Period | | Cumulative Period | |
|---|---|--|---|--|
| | Current Period from 1 Apr 2019 to 30 Jun 2019 RM'000 | Preceding Corresponding Period from 1 Apr 2018 to 30 Jun 2018 RM'000 | Current Year from 1 Jan 2019 to 30 Jun 2019 RM'000 | Preceding Corresponding Year from 1 Jan 2018 to 30 Jun 2018 RM'000 |
| (Loss)/profit for the period | (2,356) | (9,469) | 1,184 | (6,585) |
| Other comprehensive (loss)/income | | | | |
| Foreign currency translations | (1,821) | 1,600 | (532) | (10,565) |
| Total comprehensive (loss)/income for the period | (4,177) | (7,869) | 652 | (17,150) |
| Attributable to: | | | | |
| Owners of the Company | (4,341) | (7,584) | 420 | (16,747) |
| Non-controlling interests | 164 | (285) | 232 | (403) |
| | (4,177) | (7,869) | 652 | (17,150) |

The Consolidated Statement of Other Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these interim financial statements.

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Consolidated Statement of Financial Position

| | 30 Jun 2019 | 31 Dec 2018 |
|--|--------------------|----------------|
| | RM'000 | RM'000 |
| | (Unaudited) | (Audited) |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 749 | 809 |
| Land use rights | 10,827 | 11,031 |
| | <u>11,576</u> | <u>11,840</u> |
| CURRENT ASSETS | | |
| Inventories | 6,363 | 550 |
| Trade and other receivables | 452,573 | 306,392 |
| Advance for peanut purchase | 77,124 | 137,214 |
| Current tax assets | - | 1,226 |
| Cash and bank balances | 171,690 | 260,556 |
| | <u>707,750</u> | <u>705,938</u> |
| TOTAL ASSETS | <u>719,326</u> | <u>717,778</u> |
| EQUITY AND LIABILITIES | | |
| Share capital | 296,763 | 296,693 |
| Reserves | 156,417 | 155,997 |
| Equity attributable to owners of the Company | <u>453,180</u> | <u>452,690</u> |
| Non-controlling interests | 41,292 | 41,060 |
| TOTAL EQUITY | <u>494,472</u> | <u>493,750</u> |
| NON-CURRENT LIABILITIES | | |
| Borrowings | 83 | 95 |
| Trade and other payables | 3,158 | 3,169 |
| Deferred tax liabilities | 14,215 | 14,107 |
| | <u>17,456</u> | <u>17,371</u> |
| CURRENT LIABILITIES | | |
| Borrowings | 196,072 | 196,763 |
| Trade and other payables | 11,249 | 9,894 |
| Current tax liabilities | 77 | - |
| | <u>207,398</u> | <u>206,657</u> |
| TOTAL LIABILITIES | <u>224,854</u> | <u>224,028</u> |
| TOTAL EQUITY AND LIABILITIES | <u>719,326</u> | <u>717,778</u> |
| Net assets per share (sen) | <u>19.21</u> | <u>19.19</u> |

The Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to these interim financial statements.

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Interim Financial Statements for the Financial Quarter Ended 30 June 2019

Consolidated Statement of Changes in Equity (Unaudited)

| | Attributable to the owners of the Company | | | | | | Total | Non-controlling Interests | Total |
|--|---|-----------------|-------------------|-----------------------------|------------------------------|-------------------|----------|---------------------------|----------|
| | Share capital | 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 | |
| At 31 December 2017 | 285,259 | 3,983 | 18,901 | (154,550) | 61,459 | 258,707 | 473,759 | 41,394 | 515,153 |
| Effects of adoption of MFRS 9 | - | - | - | - | - | (310) | (310) | (30) | (340) |
| At 1 January 2018 (Restated) | 285,259 | 3,983 | 18,901 | (154,550) | 61,459 | 258,397 | 473,449 | 41,364 | 514,813 |
| <u>Transactions with owners of the Company</u> | | | | | | | | | |
| Issue of ordinary shares pursuant to private placement | 11,900 | - | - | - | - | - | 11,900 | - | 11,900 |
| Share issue expenses written-off against share premium in accordance with Section 618(3) of the Companies Act 2016 | (450) | - | - | - | - | - | (450) | - | (450) |
| | 11,450 | - | - | - | - | - | 11,450 | - | 11,450 |
| Subscription of shares in a subsidiary company by non-controlling interest | - | - | - | - | - | - | - | 2,880 | 2,880 |
| Loss for the period | - | - | - | - | - | (6,144) | (6,144) | (441) | (6,585) |
| Foreign currency translation, net of tax | - | - | - | - | (10,603) | - | (10,603) | 38 | (10,565) |
| Total comprehensive loss | - | - | - | - | (10,603) | (6,144) | (16,747) | (403) | (17,150) |
| At 30 June 2018 | 296,709 | 3,983 | 18,901 | (154,550) | 50,856 | 252,253 | 468,152 | 43,841 | 511,993 |

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Consolidated Statement of Changes in Equity (Unaudited) (Continued)

| | Attributable to the owners of the Company | | | | | | Total | Non-controlling Interests | Total |
|---|---|-----------------|-------------------|-----------------------------|------------------------------|-------------------|----------------|---------------------------|----------------|
| | Share capital | 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 |
| At 31 December 2018 | 296,693 | 3,983 | 18,901 | (154,550) | 52,856 | 234,807 | 452,690 | 41,060 | 493,750 |
| <u>Transactions with owners of the Company</u> | | | | | | | | | |
| Issue of ordinary shares pursuant to exercise of warrants | 70 | - | - | - | - | - | 70 | - | 70 |
| | 70 | - | - | - | - | - | 70 | - | 70 |
| Profit for the period | - | - | - | - | - | 952 | 952 | 232 | 1,184 |
| Foreign currency translation, net of tax | - | - | - | - | (532) | - | (532) | - | (532) |
| Total comprehensive income | - | - | - | - | (532) | 952 | 420 | 232 | 652 |
| At 30 June 2019 | 296,763 | 3,983 | 18,901 | (154,550) | 52,324 | 235,759 | 453,180 | 41,292 | 494,472 |

The Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial statements.

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Unaudited Consolidated Statement of Cash Flows (Unaudited)

| | Current Year from 1 Jan 2019 to 30 Jun 2019 RM'000 | Preceding Year from 1 Jan 2018 to 30 Jun 2018 RM'000 |
|--|---|---|
| Cash flows from operating activities | | |
| Profit/(loss) before tax | 2,476 | (6,575) |
| Adjustments for: | | |
| Finance costs | 4,576 | - |
| Interest income | (296) | (887) |
| Allowance for doubtful debts written back | - | (310) |
| Amortisation of government grant | - | (174) |
| Depreciation of property, plant and equipment | 58 | 1,321 |
| Amortisation of land use rights | 167 | 187 |
| Impairment of inventories | 546 | - |
| Unrealised foreign exchange loss | 1,264 | 1,557 |
| Operating profit/(loss) before working capital changes | 8,791 | (4,881) |
| Changes in working capital: | | |
| Inventories | (5,852) | 7,321 |
| Advances for peanut purchases | 60,090 | - |
| Receivables | (152,444) | 55,811 |
| Payables | 6,060 | 224 |
| Cash flows (used in)/generated from operations | (83,355) | 58,475 |
| Interest paid | (4,576) | - |
| Tax paid | 131 | - |
| Net cash (used in)/generated from operating activities | (87,800) | 58,475 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | - | (75) |
| Interest income | 296 | 887 |
| Net cash generated from investing activities | 296 | 812 |
| Cash flows from financing activities | | |
| Proceeds from issuance of shares | 70 | 11,900 |
| Share issue expenses | - | (450) |
| Proceeds from subscriptions of shares in subsidiaries by non-controlling interests | | 2,890 |
| Repayment of hire purchase liabilities | (11) | - |
| Net cash generated from financing activities | 59 | 14,340 |
| Net (decrease)/increase in cash and cash equivalents | (87,445) | 73,627 |
| Effects of exchange rate changes on cash and cash equivalents | (1,421) | (9,725) |
| Cash and cash equivalents at beginning of period | 260,556 | 431,470 |
| Cash and cash equivalents at end of period | 171,690 | 495,372 |
| Cash and cash equivalents comprise the following: | | |
| Cash and bank balances | 171,690 | 495,372 |

The Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial statements.

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Interim Financial Statements for the Financial Quarter Ended 30 June 2019

A NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of 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 2018 and these explanatory notes.

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 2018.

A2 Significant accounting policies

The accounting policies and methods of computation adopted by the Group 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 2018 except for the changes in accounting policies and presentation resulting from the adoption of new and revised MFRSs, Amendments to MFRS and Interpretation that are effective for financial periods beginning on or after 1 January 2019.

The adoption of these new and revised MFRSs, Amendments to MFRS and Interpretation did not have any material impact on the interim financial statements upon their initial application.

The Group has not adopted the following new MFRSs, Amendments to MFRSs and Interpretations issued by Malaysian Accounting Standards Board [“MASB”]:

Amendments to MFRSs and Amendments to References to the Conceptual Framework in MFRS Standards effective 1 January 2020

| | |
|------------------------|---|
| Amendments to MFRS 3 | <i>Business Combinations – Definition of a Business</i> |
| Amendments to MFRS 101 | <i>Presentation of Financial Statements – Definition of Material</i> |
| Amendments to MFRS 108 | <i>Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material</i> |

Amendments to References to the Conceptual Framework in MFRS Standards (MFRSs 2*, 3, 6*, 14, 101, 108, 134, 137 and 138*, and IC Interpretations 12*, 19*, 20*, 22 and 132*)

MFRS effective 1 January 2021

| | |
|----------|----------------------------|
| MFRS 17* | <i>Insurance Contracts</i> |
|----------|----------------------------|

Amendments to MFRSs (deferred, effective dates to be announced by MASB)

| | |
|-----------------------|--|
| MFRS 10 and MFRS 128* | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> |
|-----------------------|--|

* Not applicable to the Group’s existing operations

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The Group is in the process of assessing the financial impacts on implementing the above pronouncements, which are applicable to the Group's existing operations, the effects of which would only be observable in the period of initial application.

A3 Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the financial year ended 31 December 2018 was not qualified.

A4 Segment information

The Group has 4 reportable segments:

- (a) Raw peanuts;
- (b) Branded products – peanut oil, blended oil, repackaged soybean oil and corn oil;
- (c) Non-branded products – non-branded peanut oil; and
- (d) Others – 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 Apr 2019 to 30 Jun 2019 RM'000 | Preceding Corresponding Period from 1 Apr 2018 to 30 Jun 2018 RM'000 | Current Year from 1 Jan 2019 to 30 Jun 2019 RM'000 | Preceding Corresponding Year from 1 Jan 2018 to 30 Jun 2018 RM'000 |
| Revenue by products | | | | |
| Raw peanuts | 166,701 | - | 432,340 | - |
| Branded products | 2,217 | 2,946 | 3,301 | 5,799 |
| Non-branded products | 2,727 | 8,504 | 4,263 | 17,504 |
| Others | 625 | 3,608 | 822 | 5,669 |
| | 172,270 | 15,058 | 440,726 | 28,972 |
| Gross profit/(loss) by products | | | | |
| Raw peanuts | 4,753 | - | 9,657 | - |
| Branded products | 567 | 119 | 1,016 | 379 |
| Non-branded products | 788 | (1,228) | 1,446 | (2,168) |
| Others | 82 | (551) | (66) | (638) |
| | 6,190 | (1,660) | 12,053 | (2,427) |

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 income generating business is presently entirely operated within the People's Republic of China ["PRC"], and therefore, segment information based on geographical location 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 ["CFY"] to-date.

A6 Changes in estimates

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

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 by the Company during the CFY to-date.

A9 Changes in debt and equity securities

During the CFY to-date, the Company increased its issued ordinary share capital from RM296,693,184 to RM296,763,184 by the issuance of 700,000 new shares at an issue price of 10 sen per share on the exercise of warrants pursuant to the deed poll of 11 February 2015.

The above warrants had expired on 22 March 2019 and were delisted from the ACE Market of Bursa Securities ["ACE Market"] on 25 March 2019.

On 7 August 2019, the Company completed the consolidation of its then existing 2,574,200,000 ordinary shares into 321,774,865 new ordinary shares on the basis of 8 existing shares into 1 new share with fractional entitlements disregarded. The consolidated shares were listed and quoted on the ACE Market on 8 August 2019.

Other than the above, there were no issuances, cancellations, repurchases, resales and repayments of debt and equity securities during the CFY 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 ["CFQ"].

A11 Commitments

At the end of the CFQ, the Group has the following commitments:

- (i) purchase of freezer equipment of RM1.9 million; and
- (ii) balance of the purchase price of RM90 million for acquisition of the prawn farm and related assets referred to in Note B6(i).

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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 CFQ

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

A14 Related party transactions

The Group has no significant related party transactions during the CFY to-date.

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B ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1 Review of performance

| | Current Period from 1 Apr 2019 to 30 Jun 2019 RM'000 | Individual Period Preceding Corresponding Period from 1 Apr 2018 to 30 Jun 2018 RM'000 | Changes (+/-) | | Current Period from 1 Jan 2019 to 30 Jun 2019 RM'000 | Cumulative Period Preceding Corresponding Period from 1 Jan 2018 to 30 Jun 2018 RM'000 | Changes (+/-) | |
|--|---|--|------------------|----------|---|--|------------------|----------|
| | | | RM'000 | % | | | RM'000 | % |
| Revenue | 172,270 | 15,058 | +157,212 | +1,044.0 | 440,726 | 28,972 | +411,754 | +1,421.2 |
| (Loss)/profit before tax | (1,808) | (9,459) | -7,651 | -80.9 | 2,476 | (6,575) | - | - |
| (Loss)/profit for the period | (2,356) | (9,469) | -7,113 | -75.1 | 1,184 | (6,585) | - | - |
| (Loss)/profit attributable to owners of the Company | (2,520) | (9,186) | -6,666 | -72.6 | 952 | (6,144) | - | - |

The Group's revenue for the CFQ and CFY to-date of RM172.3 million and RM440.7 million respectively was significantly higher than those of RM15.1 million and RM29.0 million achieved in the preceding corresponding periods. This surge in revenue was due to raw peanut trading which accounted for 96.8% and 98.1% of the revenue for the CFQ and CFY to-date respectively. There were no revenue from raw peanut trading in the preceding corresponding periods. Revenue from the edible oil operations for the CFQ remained low due to anti-pollution production curbs. The Group's plant operated 7 days during the CFQ as compared to 12 days during the preceding corresponding quarter.

The year-on-year ["YoY"] increase in revenue for the CFQ enabled the Group to reduce its loss before tax ["LBT"] of RM9.5 million in the preceding corresponding quarter to a LBT of RM1.8 million for the CFQ. The unrealised foreign exchange loss for the CFQ and preceding corresponding quarter were RM3.6 million and RM6.7 million respectively. The reduced loss YoY was attributed to the fact that Renminbi ["RMB"] had depreciated against RM by about 1.2% YoY. If this expense was excluded, the Group would have a profit before tax of RM1.8 million for the CFQ and the LBT for the preceding corresponding quarter would be reduced to RM2.8 million.

The increased revenue and reduced LBT during the CFQ resulted in the Group reducing its net loss by 75.1% YoY to RM2.4 million from RM9.5 million recorded in the preceding corresponding quarter. The percentage drop in net profit was less than the percentage drop in LBT due to the PRC tax charge incurred by a PRC subsidiary as its unrealised foreign exchange loss was non-deductible for tax purposes (see Note B5).

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As for the loss attributable to the owners of the Company, the decline of 72.6% YoY was in line with the YoY percentage drop in net profit of 75.1% with the differential due to the non-controlling interest in a PRC subsidiary.

For the CFY to-date, the Group achieved a profit before tax of RM2.5 million as opposed to a LBT of RM6.6 million incurred in the corresponding preceding year to-date. This profit was attained on the back of the profitable immediate preceding financial quarter (see Note B2). As a consequence, the profit or loss numbers for the CFY to-date were all positive as compared to the negative numbers reported in the corresponding preceding year to-date.

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B2 Comparison with immediate preceding quarter's results

| | Current Period from 1 Apr 2019 to 30 Jun 2019 RM'000 | Immediate Preceding Period from 1 Jan 2019 to 31 Mar 2019 RM'000 | Changes (+/-) RM'000 % | |
|--|---|---|------------------------------|-------|
| Revenue | 172,270 | 268,456 | -96,186 | -35.8 |
| (Loss)/profit before tax | (1,808) | 4,284 | - | - |
| (Loss)profit for the period | (2,356) | 3,540 | - | - |
| (Loss)/profit attributable to owners of the Company | (2,520) | 3,472 | - | - |

The Group's revenue for the CFQ of RM172.3 million was 35.8% lower than that of RM268.5 million achieved in the immediate preceding financial quarter. This decline was due to the fact that the CFQ is a low season for the supply of raw peanuts. Peanuts in PRC are planted in early spring and harvested mid-autumn. The average selling prices were more or less the same quarter-on-quarter ["QoQ"].

The above decline in revenue QoQ turned the immediate preceding financial quarter profits into losses for the CFQ and the main reason for this was the fact that gross margin from raw peanut trading is very thin, that is, 2% to 3% and hence volume is the main determinant to profit or loss.

As explained in Note B1, the LBT for the CFQ of RM1.8 million would become a profit before tax of RM1.8 million had the unrealised foreign exchange loss of RM3.6 million been dis-regarded. In the immediate preceding financial quarter, the Group had an unrealised foreign exchange gain of RM2.4 million.

B3 Commentary on prospects

There seems to be no end to PRC's campaign against environmental pollution as the mayors of 6 cities in northern China was summoned by the PRC's Ministry of Ecology and Environment in early June 2019 to a meeting in Beijing to account for their failures to meet winter targets to cut smog. The ministry said that *"these cities have relaxed their efforts to defend the blue skies, key tasks have not been completed and some problems have rebounded"* ⁽¹⁾.

Neihuang County where the Group's peanut oil extraction plant is located lies within Anyang City which is one of the above cities summoned.

The Group realises that the above situation will eventually impact the long term sustainability of the Group and the current diversification of its principal activities (see Note B6) is but one of the actions taken by the Group to mitigate the issue. The Group is also conscious that it had to find a solution to the continued production curbs on its edible oil operations and in this respect, it has been in active discussions with Henan Finance Bureau ⁽²⁾.

As explained in Note B2, raw peanuts planted in the CFY will only be harvested in mid-autumn and as such, the coming financial quarter will be a low season for the Group's raw peanut trading activities. Accordingly, the Group anticipates that the financial performance for the said financial quarter will be lack lustre.

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The Group's net investment in its PRC and Hong Kong subsidiaries is denominated in RMB and Hong Kong Dollars ["HKD"] respectively and as all of the Group's trade transactions are denominated in RMB, all things being equal, RMB and HKD parity with RM will also has an impact on the Group's results.

(1) Reuters – 13 June 2019

(2) Henan Finance Bureau, the state-owned strategic investment arm of the Henan Province People's Government, owns Henan Agri-Industrial Investment Co. Ltd which holds 8.85% of the Henan XingHe Oil and Fat Company Limited, the Group's principal operating subsidiary in PRC

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 Apr 2019 to 30 Jun 2019 RM'000 | Cumulative current year from 1 Jan 2019 to 30 Jun 2019 RM'000 |
|--------------------------------------|--|---|
| CFQ/CFY to-date: | | |
| PRC income tax – 25% | 595 | 1,163 |
| Malaysian income tax – 24% | 8 | 16 |
| | <u>603</u> | <u>1,179</u> |
| Deferred tax: | | |
| Origination of temporary differences | (55) | 113 |
| | <u>548</u> | <u>1,291</u> |

Despite a loss on its PRC operations for the CFQ, the Group still incurred a PRC tax charge due to the non-deductibility of the unrealised foreign exchange loss. The unrealised foreign exchange loss for the CFY to-date also caused the Group's effective tax rate for the CFY to-date to be more than the PRC statutory income tax rate of 25%.

The Malaysian income tax expense for the CFQ and CFY to-date was in respect of the tax at the statutory rate of 24% on interest income which is deemed to be from non-business sources and as such, was not eligible for set-off against other operating expenses.

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B6 Status of corporate proposals announced

- (i) On 31 December 2018, the Company's wholly-owned subsidiary company, XW Aquaculture Sdn. Bhd. (fka XJ Marine Sdn. Bhd.) entered into a Sale and Purchase Agreement [**"SPA"**] and an Assets Sale and Purchase Agreement [**"ASPA"**] to acquire a prawn farm comprising:
- (a) a piece of land held under a 99-years Country Lease located in the District of Tawau, Locality of Kg. Wakuba, Sabah, measuring 97.9 hectares, with a lease period expiring on 31 December 2086 for a price of RM12.5 million; and
 - (b) all ponds, other land improvements, buildings, plant and machinery, equipment, motor vehicles, livestock and consumables for an aggregate sum of RM87.5 million;

subject to the terms and conditions as stipulated in the SPA and ASPA. The SPA and ASPA which became unconditional on 16 August 2019 is expected to be completed in the 4th financial quarter of the CFY.

- (ii) On 6 May 2019, the Company announced that it proposes to undertake the following proposals:
- (a) the diversification of the principal activities of Group to include the business of prawn aquaculture and processing of marine seafood;
 - (b) the consolidation of every 8 existing ordinary shares in the Company into 1 new ordinary share [**"Proposed Share Consolidation"**]; and
 - (c) the issuance of redeemable convertible notes [**"Notes"**] with an aggregate principal amount of up to RM120 million [**"Proposed Notes Issue"**];

(collectively the **"Proposals"**).

In relation to the Proposed Notes Issue, the Company had, on 6 May 2019, entered into a conditional subscription agreement [**"Subscription Agreement"**] with Advance Opportunities Fund as subscriber for the Notes, which will be issued in 2 tranches, subject to the terms and conditions as set out in the Subscription Agreement.

The Proposed Share Consolidation and the listing of and quotation for up to 600 million conversion shares to be issued pursuant to the Proposed Notes Issue on the ACE Market, were approved by Bursa Securities on 3 June 2019 and the Proposals were subsequently approved at the Extraordinary General Meeting of the Company held on 17 July 2019. As disclosed in Note A9, the Proposed Share Consolidation was completed on 8 August 2019.

Barring any unforeseen circumstances, the first sub-tranche of 1st tranche of Notes is expected to be issued before the end of August 2019.

Other than the above, there were no corporate proposals announced but not completed as at 22 August 2019.

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B7 Borrowings and debt securities

The Group's borrowings, all of which are secured, as at the end of the CFQ were as follows:

| | Denomination | Short term RM'000 | Long term RM'000 | Total RM'000 |
|---------------------------|------------------|----------------------|---------------------|-----------------|
| Hire-purchase liabilities | Ringgit Malaysia | 22 | 83 | 105 |
| Loans | RMB | 196,050 | - | 196,050 |
| | | 196,072 | 83 | 196,155 |

B8 Material litigation

The Group has no material litigation pending as of 22 August 2019.

B9 Dividends payable

No dividend has been declared or recommended for the CFY to-date.

B10 Loss/earnings per share

(a) Basic loss/earnings per share

The basic loss per share of 0.10 sen and basic earnings per share of 0.04 sen for the CFQ and the CFY to-date respectively were derived as follows:

| | Individual current quarter from 1 Apr 2019 to 30 Jun 2019 | Cumulative current year from 1 Jan 2019 to 30 Jun 2019 |
|---|--|---|
| (Loss)/profit attributable to owners of the Company (RM'000) | (2,520) | 952 |
| Weighted average number of shares in issue ('000) | 2,574,200 | 2,573,271 |

(b) Diluted loss/earnings per share

The diluted loss/earnings per share is the same as the basic loss/earnings per share as the Company has no dilutive potential ordinary shares in issue as at the end of the CFQ.

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B11 Loss/profit before tax

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

| | Individual current quarter from 1 Apr 2019 to 30 Jun 2019 RM'000 | Cumulative current year from 1 Jan 2019 to 30 Jun 2019 RM'000 |
|--|---|--|
| Interest income | 60 | 296 |
| Other income including investment income | - | - |
| Interest expenses | (2,420) | (4,576) |
| Depreciation of property, plant and equipment | (29) | (58) |
| Amortisation of land use rights | (84) | (167) |
| Provision for and write-off of inventories | (36) | (546) |
| Impairment of assets | - | - |
| Gain or (loss) on disposal of quoted or unquoted investments or properties | - | - |
| Allowance for doubtful debts written back | - | - |
| Gain or (loss) on derivatives | - | - |
| Foreign exchange gain or (loss) | (3,636) | (1,264) |
| Exceptional items (with details) | - | - |

By Order of the Board

Chong Voon Wah
Thai Kian Yau
Company Secretaries

29 August 2019