

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2016**

	--- Individual Quarter ---		--- Cumulative Quarter ---	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
Revenue	18,560	18,961	31,868	29,863
Cost of sales	(14,294)	(16,084)	(24,419)	(25,210)
Gross profit	4,266	2,877	7,449	4,653
Other operating income	62	145	62	438
Administrative expenses	(2,668)	(2,151)	(3,895)	(3,159)
Selling and distribution expenses	(671)	(406)	(1,246)	(686)
Other operating expenses	(5)	-	(26)	-
Finance costs	(72)	(82)	(285)	(298)
Profit before taxation	912	383	2,059	948
Taxation	(26)	(374)	(273)	(548)
Profit after taxation ("PAT")	886	9	1,786	400
Other comprehensive income after tax:				
- Foreign exchange translation	(282)	969	(7,266)	4,101
Total comprehensive income/ (loss)	604	978	(5,480)	4,501
PROFIT ATTRIBUTABLE TO:				
- Owners of the company	886	9	1,786	400
TOTAL COMPREHENSIVE INCOME/ (LOSS) ATTRIBUTABLE TO:				
- Owners of the company	604	978	(5,480)	4,501
Weighted average no. of ordinary shares ('000)	746,466	531,122	675,443	523,603
Earnings per share attributable to owners of the company (sen):				
- Basic	0.12	0.002	0.26	0.08
- Diluted	0.09	0.001	0.20	0.05

Notes:

N/A Not applicable

(1) The Unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the Audited Financial Statements of Kanger International Berhad ("Kanger" or the "Company") for the financial year ended ("FYE") 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

	(Unaudited) As at 30 June 2016 RM '000	(Audited) As at 31 December 2015 RM '000
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	29,012	33,192
Intangible assets	15,985	16,338
	<u>44,997</u>	<u>49,530</u>
CURRENT ASSETS		
Inventories	32,201	30,780
Trade and other receivables	46,912	29,242
Cash and cash equivalents	22,459	28,487
	<u>101,572</u>	<u>88,509</u>
TOTAL ASSETS	<u>146,569</u>	<u>138,039</u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	79,846	60,442
Reserves	31,500	36,116
TOTAL EQUITY	<u>111,346</u>	<u>96,558</u>
CURRENT LIABILITIES		
Trade and other payables	1,887	7,975
Amount owing to a director	189	753
Bank borrowings	32,638	30,611
Tax payable	509	1,374
	<u>35,223</u>	<u>40,713</u>
LONG TERM LIABILITIES		
Redeemable convertible notes	-	720
Deferred taxation	-	48
	<u>-</u>	<u>768</u>
TOTAL LIABILITIES	<u>35,223</u>	<u>41,481</u>
TOTAL EQUITY AND LIABILITIES	<u>146,569</u>	<u>138,039</u>
NET ASSETS PER SHARE (sen)	<u>13.95</u>	<u>15.98</u>

Note:

- (1) The Unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the Audited Financial Statements of Kanger for the FYE 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2016

	----- Non-Distributable -----					Equity component of Redeemable Convertible Notes RM '000	Distributable	
	Share Capital RM '000	Share Premium RM '000	Merger Reserve RM '000	Revaluation Reserve RM '000	Translation Reserve RM '000		Retained Earnings RM '000	Total Equity RM '000
Balance as at 1 January 2016	60,442	3,385	(12,805)	788	14,481	132	30,135	96,558
Conversion of redeemable convertible notes	19,404	996	-	-	-	(132)	-	20,268
Drawdown of redeemable convertible notes	-	-	-	-	-	-	-	-
PAT	-	-	-	-	-	-	1,786	1,786
Foreign currency translation	-	-	-	-	(7,266)	-	-	(7,266)
Total comprehensive loss	-	-	-	-	(7,266)	-	1,786	(5,480)
Balance as at 30 June 2016	79,846	4,381	(12,805)	788	7,215	-	31,921	111,346
Preceding year corresponding period ended 30 June 2015								
Balance as at 1 January 2015	51,600	2,302	(12,805)	788	4,649	-	20,383	66,917
Conversion of warrants	1,907	-	-	-	-	-	-	1,907
Conversion of redeemable convertible notes	864	1,136	-	-	-	-	-	2,000
Share issue expenses	-	(82)	-	-	-	-	-	(82)
Drawdown of redeemable convertible notes	-	-	-	-	-	441	-	441
PAT	-	-	-	-	-	-	400	400
Foreign currency translation	-	-	-	-	4,101	-	-	4,101
Total comprehensive income	-	-	-	-	-	-	400	4,501
Balance as at 30 June 2015	54,371	3,356	(12,805)	788	8,750	441	20,783	75,684

Note:

(1) The Unaudited Condensed Consolidated Statement of Changes In Equity should be read in conjunction with the Audited Financial Statements of Kanger for the FYE 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2016**

	Current Year to date 30 June 2016 RM'000	Preceding Year to date 30 June 2015 RM'000
CASH FLOWS FOR OPERATING ACTIVITIES		
Profit before taxation	2,059	948
Adjustments for:		
Depreciation of property, plant and equipment	698	609
Amortisation of intangible assets	318	-
Interest expenses	285	298
Interest income	(1)	-
Operating profit before working capital changes:	3,359	1,855
Change in inventories	(1,421)	72
Change in trade and other receivables	(16,260)	(7,635)
Change in trade and other payables	(6,616)	1,910
CASH USED IN OPERATIONS	(20,938)	(3,798)
Interest paid	(285)	(298)
Interest received	1	-
Income tax paid	(1,056)	(908)
NET CASH USED IN OPERATING ACTIVITIES	(22,278)	(5,004)
CASH FLOWS FOR INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,013)	(6,514)
Development expenditure	(1,368)	-
NET CASH USED IN INVESTING ACTIVITIES	(2,381)	(6,514)
CASH FLOWS FOR FINANCING ACTIVITIES		
Drawdown of bank borrowings	9,698	5,480
Withdrawal/(Placement) of fixed deposit pledged	811	(9,767)
Repayment of bank borrowings	(5,124)	-
Drawdown of redeemable convertible notes	19,500	3,000
Proceeds from issuance of shares	-	3,907
Share issue expenses	-	(82)
NET CASH GENERATED FROM FINANCING ACTIVITIES	24,885	2,538
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	226	(8,980)
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	(5,443)	3,662
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD	17,231	17,549
CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD	12,014	12,231

KANGER INTERNATIONAL BERHAD
(1014793-D)

	Current Year to date 30 June 2016 RM'000	Preceding Year to date 30 June 2015 RM'000
Cash and cash equivalents at end of the financial period comprise the following:		
- Cash and bank balances	12,014	12,231
- Fixed deposit placed with licensed banks	10,445	9,767
	<u>22,459</u>	<u>21,998</u>
Less: Fixed deposit pledged	<u>(10,445)</u>	<u>(9,767)</u>
	<u><u>12,014</u></u>	<u><u>12,231</u></u>

Note:

- (1) *The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Audited Financial Statements of Kanger for the FYE 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.*

QUARTERLY REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2016

A: EXPLANATORY NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT FOR THE PERIOD ENDED 30 JUNE 2016

A1. Accounting policies and methods of computation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“MFRS”) 134: Interim Financial Reporting, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) (“Listing Requirements”).

The interim financial statements should be read in conjunction with the Audited Financial Statements of Kanger for the FYE 31 December 2015 and the accompanying explanatory notes attached to this interim financial report.

Kanger and its subsidiaries (“Group”) have not applied the following standards, amendments and interpretations under the MFRS framework that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Group:

MFRSs and IC Interpretations (Including The Consequential Amendments)	Effective dates for financial period beginning on and after
MFRS 9 – Financial Instruments (IFRS 9 as issued by IASB in July 2014)	1 January 2018
Amendments to MFRS 10 and MFRS 128 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be announced
MFRS 15 – Revenue From Contracts with Customers	1 January 2018
MFRS 16 – Leases	1 January 2019
MFRS 107 – Disclosure Initiative (Amendments to MFRS 107)	1 January 2017
MFRS 112 – Recognition of Deferred Tax Assets For Unrealised Losses (Amendments to MFRS 112)	1 January 2017

The Group intends to adopt the above MFRSs, IC Interpretation as well as amendments to MFRSs when they become effective.

The adoption of the above standards and interpretations will not have any material impact on the financial position and performance of the Group. The accounting policies and methods of computation adopted by the Group in these unaudited condensed interim financial statements are consistent with those adopted in the Audited Financial Statements of Kanger for the FYE 31 December 2015.

A2. Auditors’ report on preceding annual financial statements

The auditors’ report on the audited consolidated financial statements of the Company for the FYE 31 December 2015 was not subject to any qualification.

A3. Seasonal or cyclical factors

The principal business of the Group was not significantly affected by seasonal or cyclical factors save for the long Chinese New Year holidays in the People’s Republic of China (“PRC”) in the financial quarter ended 31 March 2016.

A4. Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter.

A5. Material changes in estimates

Not applicable as there were no estimates reported in the prior financial years.

A6. Debt and equity securities

During the current financial quarter, Kanger issued a total of RM19,500,000 in nominal value of redeemable convertible notes ("**Notes**").

In addition, Kanger had, during the current financial quarter, issued a total of 194,041,151 new ordinary shares of RM0.10 each in Kanger ("**Kanger Shares**") arising from the conversion of RM20,400,000 in nominal value of Notes, details of which are as follows:-

- (i) RM900,000 in nominal value of the Notes at a conversion price of RM0.10, converted into 9,000,000 new Kanger Shares, which were listed on the ACE Market of Bursa Securities on 6 April 2016;
- (ii) RM6,000,000 in nominal value of the Notes at a conversion price of RM0.10, converted into 60,000,000 new Kanger Shares, which were listed on the ACE Market of Bursa Securities on 12 April 2016;
- (iii) RM7,000,000 in nominal value of the Notes at a conversion price of RM0.10, converted into 70,000,000 new Kanger Shares, which were listed on the ACE Market of Bursa Securities on 22 April 2016;
- (iv) RM1,500,000 in nominal value of the Notes at a conversion price of RM0.108, converted into 13,888,888 new Kanger Shares, which were listed on the ACE Market of Bursa Securities on 12 May 2016; and
- (v) RM5,000,000 in nominal value of the Notes at a conversion price of RM0.1215, converted into 41,152,263 new Kanger Shares, which were listed on the ACE Market of Bursa Securities on 25 May 2016.

Save as disclosed above, there were no other issuance, cancellation, repurchase, resale and repayment of debt and equity securities for the current financial quarter.

A7. Segmental information

The Group's revenue is derived from four (4) products as follows:

	---- Individual Quarter ----		---- Cumulative Quarter ----	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
Horizontal and vertical bamboo flooring	16,729	10,183	26,274	15,911
Strand woven bamboo flooring	169	1,017	306	2,248
Bamboo furniture	-	-	3,168	-
Other strand woven bamboo products	1,662	7,761	2,120	11,704
Total	18,560	18,961	31,868	29,863

The Group's revenue based on the geographical location of its customers is as follows:

	---- Individual Quarter ----		---- Cumulative Quarter ----	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
PRC	7,955	9,296	12,337	16,469
Export:				
- Canada	3,407	-	8,758	-
- Brazil	-	-	2,684	-
- New Zealand	2,286	-	2,286	332
- Turkey	1,993	246	1,993	246
- Mexico	1,947	-	1,947	-
- United States	-	2,478	2	3,361
- Others*	972	6,941	1,861	9,455
	<u>18,560</u>	<u>18,961</u>	<u>31,868</u>	<u>29,863</u>

* Includes countries in Europe, Asia and South America.

No other segmental information such as segment assets, liabilities and results are presented as the Group is principally engaged in one industry, that is, the bamboo industry in the PRC.

A8. Valuation of property, plant and equipment

The Group has not carried out any valuation of its property, plant and equipment in the current financial quarter.

A9. Capital commitments

The capital commitments of the Group as at 30 June 2016 are as follows:

	RM '000
Approved and contracted for:	
- Capital work-in-progress	72,096
- Machineries	1,644
	<u>73,740</u>

A10. Changes in the composition of the Group

On 12 April 2016, Kanger announced that Kanger Investment (HK) Limited, a wholly-owned subsidiary of Kanger, had incorporated a wholly-owned subsidiary in Hong Kong, namely Kanger Trading (HK) Co., Limited ("**Kanger Trading**").

Save for the above, there were no other changes in the composition of the Group for the current financial quarter.

A11. Contingent liabilities and contingent assets

There were no changes in contingent liabilities or contingent assets since the date of the last annual reporting period up to the date of this report.

A12. Material events subsequent to the end of the quarter

There were no material events subsequent to the end of the current quarter and financial period-to-date that have not been reflected in this interim financial report.

A13. Related party transactions

There were no related party transactions entered into with related parties during the current financial quarter.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Analysis of performance

	---- Individual Quarter ----		---- Cumulative Quarter ----	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	RM '000	RM '000	RM '000	RM '000
Revenue	18,560	18,961	31,868	29,863
Profit before taxation	912	383	2,059	948

For the current financial quarter ended 30 June 2016 (“**Q2 2016**”), the Group recorded revenue of RM18.56 million and profit before taxation of RM0.91 million. Gross profit margin and profit before taxation margin stood at 23.0% and 4.9% respectively for Q2 2016.

The marginal decrease in revenue in Q2 2016 as compared to the corresponding quarter ended 30 June 2015 (“**Q2 2015**”) by 2.1% was mainly due to a decrease in domestic sales in the PRC market during the quarter. However, the Group recorded a rise in export sales in Q2 2016 due to the Group’s increased effort in marketing its products to the overseas market.

For Q2 2016, profit before taxation increased by RM0.53 million from RM0.38 million in Q2 2015 to RM0.91 million in Q2 2016 mainly due to the increase in sales of bamboo flooring products with higher gross profit margin.

For the financial period ended 30 June 2016 (“**FPE June 2016**”), the Group recorded revenue of RM31.87 million and profit before taxation of RM2.06 million. Gross profit margin and profit before taxation margin stood at 23.4% and 6.5% respectively for FPE June 2016.

The increase in revenue for FPE June 2016 as compared to the corresponding period ended 30 June 2015 (“**FPE June 2015**”) by 6.7% was mainly due to the pick-up in export sales and the sales from bamboo furniture due to the Group’s increased effort in marketing its products, including its new bamboo furniture products, to the overseas market.

Overall, profit before taxation increased by RM1.11 million or 117.2% in FPE June 2016 as compared to FPE June 2015 mainly due to the increase in revenue as well as sales of products, i.e. bamboo flooring and bamboo furniture with higher gross profit margin.

B2. Comparison with immediate preceding quarter’s results

	Quarter ended		Variance
	30 June 2016 RM '000	31 March 2016 RM '000	
Revenue	18,560	13,308	5,252
Profit before taxation	912	1,147	(235)

The Group recorded an increase in revenue by RM5.3 million to RM18.56 million in Q2 2016 as compared to RM13.31 million in the preceding financial quarter ended 31 March 2016. This increase in revenue was mainly due to the long Chinese New Year holidays in the PRC during the preceding financial quarter, which is consistent with the sales trend in previous years.

Despite the increase in revenue, the Group’s profit before taxation decreased by RM0.24 million to RM0.91 million in Q2 2016 as compared to RM1.15 million in the preceding financial quarter ended 31 March 2016 mainly due to arranger fees incurred in Q2 2016 for the drawdown and conversion of redeemable convertible notes.

B3. Prospects for the financial year ending 31 December 2016 (“FYE 2016”)

China’s strong economic growth has led to increasingly affluent consumers who now have the purchasing power as well as the willingness to pay to enhance individual lifestyles for greater comfort and pleasure. The modernisation and urbanisation of the country has also caused a growth in China’s property construction industry, an industry that the bamboo flooring market is dependent on for the consumption of its products. Under its 13th Five-Year Plan (2016-2020), China aims to double its 2010 GDP and the 2010 per capita income of both urban and rural residents by 2020 and will focus more on green and low-carbon industries. This is envisaged to positively affect the bamboo flooring market. The bamboo flooring market in China is valued at RMB3.37 billion in 2012 and is expected to grow at a compound annual growth rate of 8.4 percent for the year 2012 to 2017 to RMB5.04 billion in 2017. In addition, bamboo flooring products are increasingly welcomed by the consumer due to merits like environmental friendliness and high price-to-performance ratio. *(Source: Independent Market Research Report prepared by Protégé Associate Sdn Bhd, China’s 13th Five Year Plan and China Wood Flooring Industry Report, 2014-2018).*

In line with the bright outlook of the bamboo industry, the Group has identified the following main strategies to continue to grow its businesses:-

- (a) Expansion of the Group’s flooring products with the launching of new series of bamboo flooring products;
- (b) Enhancing the Group’s flooring products to focus more on ‘green’ strand woven products;
- (c) Expansion of the Group’s product portfolio to include bamboo furniture marketed under the ‘KAR-ACE’ brand;
- (d) Expansion of the Group’s presence by increasing the number of appointed dealers and number of sales and marketing channels; and
- (e) Diversification of the Group’s principal activities to include property investment and management which will provide the Group with additional income and cash flows.

Premised on the above, the Board of Directors of Kanger (“**Board**”) is of the view that the Group will enjoy sustainable growth for the financial year ending 2016.

B4. Profit forecast

The Group has not issued any profit forecast in any public documents.

B5. Taxation

	--- Individual Quarter ---		--- Cumulative Quarter ---	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
Current tax expenses	<u>26</u>	<u>374</u>	<u>273</u>	<u>548</u>
Effective tax rate	<u>2.9%</u>	<u>97.7%</u>	<u>13.3%</u>	<u>57.8%</u>

The PRC income tax is computed in accordance with the relevant laws and regulations in the PRC. The applicable income tax rate is 25% for the current financial quarter and financial year-to-date, except for the Group's subsidiary, Ganzhou Kanger Industrial Co., Ltd, which currently enjoys a preferential tax rate of 15%. In addition, Kanger Trading currently enjoys 0% tax rate in Hong Kong as it is an export company and derives its income overseas.

The effective tax rate of 97.7% for the corresponding financial quarter ended 30 June 2015 was mainly due to the losses incurred by the Company in the current financial quarter (as a result of administrative expenses) which are not eligible for tax deductions.

B6. Status of corporate proposals

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

B7. Borrowings

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

	RM '000
Secured – Short term borrowings	
Bank overdraft	84
Term loans	17,363
Bills payables	15,191
Total borrowings ⁽¹⁾	<u>32,638</u>

Note:

(1) As at 30 June 2016, the Group does not have any long term and unsecured borrowings.

The currency exposure profile of the Group's borrowings is as follows:

	RM '000
Secured – Short term borrowings	
Ringgit Malaysia	84
Chinese Renminbi	32,554
Total borrowings	<u>32,638</u>

Note:

(1) The Group's borrowings in Renminbi ("**RMB**") are translated into Ringgit Malaysia at the exchange rate of RMB1: RM0.6008 as at 30 June 2016.

B8. Material litigation

As at date of this report, there is no litigation or arbitration which has a material effect on the financial position of the Group, and the Board is not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B9. Dividends

There were no dividends paid or declared for FPE 30 June 2016 (FPE 30 June 2015: Nil).

B10. Earnings per share

The Group's basic earnings per share is calculated as follows:

	--- Individual Quarter ---		--- Cumulative Quarter ---	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
Profit attributable to ordinary equity holders of the company (RM '000)	886	9	1,786	400
Weighted average number of ordinary shares in issue ('000)	746,466	531,122	675,443	523,603
Basic earnings per share (sen)	0.12	0.002	0.26	0.08

The Group's diluted earnings per share is calculated as follows:

	--- Individual Quarter ---		--- Cumulative Quarter ---	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
Profit attributable to ordinary equity holders of the company (RM '000)	886	9	1,786	400
Weighted average number of ordinary shares in issue ('000)	746,466	531,122	675,443	523,603
Assuming full exercise of warrants ('000)	238,935	238,935	238,935	238,935
Assuming full conversion of Notes already issued ('000)	-	8,643	-	8,643
Diluted earnings per share (sen)	0.09	0.001	0.20	0.05

B11. Disclosure on selected expense/income items as required by the Listing Requirements

Included in the profit before taxation are the following expense/(income) items:

	--- Individual Quarter ---		--- Cumulative Quarter ---	
	30 June 2016 RM '000	30 June 2015 RM '000	30 June 2016 RM '000	30 June 2015 RM '000
Interest expenses	72	82	285	298
Depreciation	334	262	698	609
Amortisation of intangible assets	157	-	318	-
Interest income	(1)	-	(1)	-

There were no other income, provision for and write off of receivables and inventories, gain or loss on disposal of investments or properties, impairment of assets, gain or loss on derivatives and exceptional items for the current quarter and for FPE 30 June 2016.

B12. Disclosure of realised and unrealised profits

The breakdown of the retained earnings of the Group as at 30 June 2016 into realised and unrealised profits is as follows:

	As at 30 June 2016 RM '000	As at 30 June 2015 RM '000
Total retained earnings of the Group:		
- Realised	31,921	20,783
- Unrealised	-	-
Total	<u>31,921</u>	<u>20,783</u>
Less: Consolidation adjustments	-	-
Total retained earnings of the Group	<u><u>31,921</u></u>	<u><u>20,783</u></u>

By Order of the Board

WONG YUET CHYN (MAICSA 7047163)

Company Secretary

Kuala Lumpur

25 August 2016