



HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)
(Incorporated in Malaysia under the Companies Act, 2016)

INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

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**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
(UNAUDITED)**

	Individual Quarter		Cumulative Period	
	Current Year Quarter 30.09.2018 ⁽¹⁾ RM'000	Preceding Year Corresponding Quarter 30.09.2017 RM'000	Current Year Period 30.09.2018 ⁽¹⁾ RM'000	Preceding Year Corresponding Period 30.09.2017 RM'000
Revenue	30,001	29,341	87,043	85,538
Cost of sales	(21,330)	(17,806)	(61,885)	(54,262)
Gross profit ("GP")	8,671	11,535	25,158	31,276
Other income	-	97	945	1,307
Selling and distribution expenses	(5,321)	(5,241)	(15,383)	(15,852)
Administrative and other expenses	(2,532)	(3,318)	(8,670)	(10,154)
Finance costs	(809)	(835)	(2,533)	(2,413)
Profit/(Loss) before tax	9	2,238	(483)	4,164
Tax income/(expenses)	351	(977)	419	(1,502)
Profit/(Loss) after tax/ Total comprehensive income/(loss)	360	1,261	(64)	2,662
Profit/(Loss) for the financial period/ Total comprehensive income/(loss) attributable to:				
- Owners of Heng Huat	343	1,258	(93)	2,779
- Non-controlling interests	17	3	29	(117)
	360	1,261	(64)	2,662
Earnings/(Loss) per share attributable to owners of Heng Huat:				
- Basic (sen) ⁽²⁾	0.11	0.41	(0.03)	0.90
- Diluted (sen) ⁽²⁾	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable.

⁽¹⁾ The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

⁽²⁾ Kindly refer to Note **B8** for further details.

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

	As at 30.09.2018 ⁽¹⁾ RM'000 (unaudited)	As at 31.12.2017 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	99,994	105,259
Intangible assets	3,360	4,258
	103,354	109,517
Current Assets		
Inventories	13,946	11,078
Derivative asset	-	131
Current tax assets	681	-
Trade and other receivables	36,840	37,708
Cash and cash equivalents	7,674	9,451
	59,141	58,368
TOTAL ASSETS	162,495	167,885
Equity		
Share capital	36,324	36,324
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	46,999	48,189
	78,138	79,328
Non-controlling interests	271	482
Total Equity	78,409	79,810
Non-Current Liabilities		
Borrowings	19,112	21,656
Deferred tax liabilities	1,705	1,945
	20,817	23,601
Current Liabilities		
Trade and other payables	29,332	27,955
Derivative liabilities	233	-
Current tax liabilities	-	120
Borrowings	33,704	36,399
	63,269	64,474
Total Liabilities	84,086	88,075
TOTAL EQUITY AND LIABILITIES	162,495	167,885
NET ASSETS PER SHARE (RM) ⁽²⁾	0.253	0.257

Notes:

⁽¹⁾ The unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

⁽²⁾ Calculated based on the Company's existing issued and paid-up share capital of 308,700,045 ordinary shares ("Shares").



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

	[----- Non-Distributable -----]			Distributable	Total attributable to owners of the Company	Non- controlling interests	Total equity
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	RM'000	RM'000	RM'000
At 1 January 2018	36,324	-	(5,185)	48,189	79,328	482	79,810
Adjustment of MFRS recognition:							
- MFRS 9	-	-	-	(732)	(732)	-	(732)
- MFRS 15	-	-	-	(365)	(365)	-	(365)
Total comprehensive loss for the financial period	-	-	-	(93)	(93)	29	(64)
Dividend paid to non-controlling shareholders of a subsidiary	-	-	-	-	-	(240)	(240)
At 30 September 2018	36,324	-	(5,185)	46,999	78,138	271	78,409
At 1 January 2017	30,870	5,454	(5,185)	44,697	75,836	3,707	79,543
Total comprehensive income for the financial period	-	-	-	2,779	2,779	(117)	2,662
Acquisition of non-controlling interests without a change in control	-	-	-	3,086	3,086	(3,086)	-
At 30 September 2017	30,870	5,454	(5,185)	50,562	81,701	504	82,205

Note:

The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)**

	Year-to-date ended	
	30.09.2018 RM'000	30.09.2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before tax	(483)	4,164
<u>Adjustments for:</u>		
Amortisation of intangible assets	898	898
Bad debt written-off	-	124
Depreciation of property, plant and equipment	7,770	7,669
Fair value adjustment on derivative instruments	364	(535)
(Gain)/Loss on disposal of property, plant and equipment	(134)	7
Intangible assets written-off	-	3
Property, plant and equipment written-off	61	8
Provision/(Reversal) of impairment of receivables	4	(373)
Interest expense	2,533	2,413
Interest income	(57)	(80)
Unrealised (gain)/loss on foreign exchange	(372)	861
	<hr/>	<hr/>
Operating profit before working capital changes	10,584	15,159
Increase in inventories	(2,868)	(4,237)
Decrease/(Increase) in trade and other receivables	141	(3,430)
Increase in trade and other payables	1,377	2,886
	<hr/>	<hr/>
	9,234	10,378
Tax (paid)/refund	(622)	25
	<hr/>	<hr/>
Net cash from operating activities	8,612	10,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	57	80
Proceeds from disposal of property, plant and equipment	1,235	249
Purchase of property, plant and equipment	(3,395)	(9,139)
Changes in fixed deposits pledged with licensed banks	447	157
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	(1,656)	(8,653)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	(240)	-
Interest paid	(2,533)	(2,413)
Net repayment of bankers' acceptance	(3,260)	(1,029)
Net repayment of term loans	(1,542)	(1,624)
Net repayment of hire purchase payables	(1,639)	(2,557)
	<hr/>	<hr/>
Net cash used in financing activities	(9,214)	(7,623)
	<hr/>	<hr/>
Net changes in cash and cash equivalents	(2,258)	(5,873)
Effects of foreign exchange	(2)	(2)
Cash and cash equivalents at beginning of the financial period	(4,814)	2,434
	<hr/>	<hr/>
Cash and cash equivalents at end of the financial period	(7,074)	(3,441)

Remark

* Less than RM1,000



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)
(UNAUDITED)

	Year-to-date ended	
	30.09.2018 RM'000	30.09.2017 RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	5,718	7,513
Fixed deposits pledged to financial institutions	1,956	2,393
	7,674	9,906
Less: Bank overdraft	(12,792)	(10,954)
Less: Fixed deposits pledged to financial institutions	(1,956)	(2,393)
	(7,074)	(3,441)

Note:

The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

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EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134

A1. BASIS OF PREPARATION

The condensed consolidated interim financial statements as contained in this interim financial report are unaudited and have been prepared under the historical cost convention except otherwise stated.

These unaudited interim financial statements have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and Part K, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements (“ACE LR”) issued by Bursa Malaysia Securities Berhad (“Bursa Securities”).

These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report. The explanatory notes contained herein 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 2017.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the preparation of these unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2017, except for the adoption of the following MFRS and Amendments to MFRSs as disclosed below:

Effective for annual periods commencing on or after 1 January 2018

- Amendments to MFRS 1 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- MFRS 9 *Financial Instruments (IFRS 9 as issued by IASB in July 2014)*
- MFRS 15 *Revenue from Contracts with Customers*
- Clarifications to MFRS 15
- Amendments to MFRS 128 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 140 *Transfers of Investment Property*
- IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts* *** [See MFRS 4 Paragraphs 46 and 48 for the effective date] ***

The adoption of the above MFRS and Amendments to MFRSs did not have any significant financial impact to the Group, other as disclosed below:



A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

MFRS 9 Financial Instruments

MFRS 9 is effective for annual periods beginning on or after 1 January 2018. MFRS 9 introduces new requirements for classification and measurement of financial instruments, impairment assessment based on the Expected Credit Loss (“ECL”) model and hedge accounting.

The Group has applied MFRS 9 retrospectively on the initial application date of 1 January 2018 and has elected not to restate comparatives.

The adoption of MFRS 9 did not have any significant effects on the interim financial report upon their initial application, except for the effect of applying the impairment assessment based on the ECL model on trade receivables.

The Group has applied forward-looking impairment policy to calculate the expected credit losses on all trade receivables. For the purpose of assessing the new ECL impairment model, the Group had categorised the customers into segments of customers portfolio based on past repayment records, credit terms provided as well as assessing the economic factors of each individual market it operates in.

MFRS 15 Revenue from Contracts with Customers

The Group has early adopted MFRS 15 in the current financial year. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

In summary, the impacts of adopting both MFRS 9 and MFRS 15 to opening balances are as follows:

Statement of financial position

	Previously stated on 31.12.2017 RM'000	Effects of MFRS 9 RM'000	Effects of MFRS 15 RM'000	Restated on 01.01.2018 RM'000
Assets				
Trade receivables	37,708	(732)	(365)	36,611
Impact to assets	37,708	(732)	(365)	36,611
Equity				
Retained earnings	48,189	(732)	(365)	47,092



A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The following MFRSs and Amendments to MFRSs have been issued by the MASB but are not early adopted by the Group:

Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 Leases
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3 *(Annual Improvements to MFRS Standards 2015 – 2017 Cycle)*
- Amendments to MFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 *(Annual Improvements to MFRS Standards 2015 – 2017 Cycle)*
- Amendments to MFRS 112 *(Annual Improvements to MFRS Standards 2015 – 2017 Cycle)*
- Amendments to MFRS 119 *(Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123 *(Annual Improvements to MFRS Standards 2015 – 2017 Cycle)*
- Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*

Effective for annual periods commencing on or after 1 January 2020

- Amendments to MFRS 2 *Share-based Payment*
- Amendments to MFRS 3 *Business Combinations*
- Amendments to MFRS 6 *Exploration for and Evaluation of Mineral Resources*
- Amendments to MFRS 101 *Presentation of Financial Statements*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134 *Interim Financial Reporting*
- IC Interpretation 132 *Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs*

Effective for annual periods commencing on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

Deferred (date to be determined by MASB)

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

The Group is in the process of assessing the impact of implementing these accounting standards and amendments, since the effects would only be observable for the future financial years.



A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the Group's most recent annual audited financial statements for the financial year ended 31 December 2017 were not subject to any qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATION

Save for oil palm empty fruit bunch ("EFB") fibre, the Group's biomass materials and value-added products are not significantly affected by seasonal/cyclical effects. Demand for the Group's oil palm EFB fibre generally experience a decline during the Chinese New Year season mainly due to slowdown in logistics services and business activities in China during this period as businesses are closed for holidays during the festive season.

The Group typically experience higher sales of mattresses and related products prior to major festive season such as Chinese New Year and Hari Raya in tandem with the expected increase in household spending for such items during such periods.

A5. UNUSUAL ITEMS

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

A6. MATERIAL CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial years that have a material impact on the current quarter and financial period under review.

A7. DEBTS AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period under review.

A8. DIVIDEND PAID/ DECLARED

The Board of Directors did not recommend any payment of dividend during the current quarter and financial period under review. (*FYE 30 September 2017: Nil*)

A9. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There were no material events subsequent to the end of current quarter and financial period under review that have not have been reflected in this interim financial report/ announced to the Bursa Securities.



A10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current quarter and financial period under review.

A11. CHANGES IN CONTINGENT LIABILITIES

There are no material contingent liabilities as at the date of this report.

A12. CAPITAL COMMITMENTS

There were no material capital commitments in respect of property, plant and equipment which were not provided in the financial statements as at 30 September 2018.

	As at 30.09.2018 RM'000
Property, plant and equipment Approved but not contracted for	-
Contracted but not provided for	750
	<u>750</u>

A13. SEGMENT INFORMATION

The Group, through its subsidiaries, are principally engaged in manufacturing and trading of biomass materials and manufacturing and trading of mattresses and related products. There is no change to the principal activities of the Group during the current quarter and financial period under review.

The Group has arrived at two (2) reportable segments that are organised and managed separately according to the nature of products, specific expertise and technologies requirements, which requires different business and marketing strategies. The reportable segments are summarised as follows:

- (i) Biomass materials and related products
Manufacturing and trading of coconut fibre and related products, and oil palm EFB fibre and related products.
- (ii) Mattresses and related products
Manufacturing and trading of mattresses and related products.



A13. SEGMENT INFORMATION (cont'd)

	Current quarter ended		Year-to-date ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
<u>Segment Revenue</u>				
Biomass materials and related products	26,324	26,461	75,164	75,999
Mattresses and related products	6,010	5,300	18,542	16,486
	32,334	31,761	93,706	92,485
Elimination of intragroup transactions	(2,333)	(2,420)	(6,663)	(6,947)
Revenue from external customers	30,001	29,341	87,043	85,538
<u>Segment Results</u>				
Biomass materials and related products	70	2,684	394	5,397
Mattresses and related products	188	(120)	64	(199)
	258	2,564	458	5,198
Unallocated corporate income and expenses (net)	3,631	(303)	10,819	(841)
Elimination of intragroup transactions and profits	(3,880)	(23)	(11,760)	(193)
Profit/(loss) before tax of the Group	9	2,238	(483)	4,164
<u>Segment Assets</u>				
Biomass materials and related products	149,563	161,682	149,563	161,682
Mattresses and related products	18,609	17,436	18,609	17,436
	168,172	179,118	168,172	179,118
Tax assets	681	349	681	349
Unallocated assets	28,592	30,001	28,592	30,001
Elimination of intragroup balances and profits	(34,950)	(43,106)	(34,950)	(43,106)
Total assets of the Group	162,495	166,362	162,495	166,362
<u>Segment Liabilities</u>				
Biomass materials and related products	86,543	99,632	86,543	99,632
Mattresses and related products	16,136	14,658	16,136	14,658
	102,679	114,290	102,679	114,290
Tax liabilities	1,705	2,350	1,705	2,350
Unallocated liabilities	14,226	10,198	14,226	10,198
Elimination of intragroup balances and profits	(34,524)	(42,681)	(34,524)	(42,681)
Total liabilities of the Group	84,086	84,157	84,086	84,157



A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	30.09.2018	30.09.2017	30.09.2018	30.09.2017
	RM'000	RM'000	RM'000	RM'000
Purchase of oil palm EFB ^	-	-	-	319
Renting of a single storey office annexed with a single storey detached factory used for oil palm EFB fibre manufacturing ^	-	18	-	54
Renting of two storey office with single storey detached factory used for mattress production and warehouse	152	78	357	234
Renting of vacant land for placement of portable cabins used for staff accommodation	30	30	90	90

^ Upon completion of the acquisition of the remaining 50% equity stake in HK Palm Fibre on 26 May 2017, the supplier of oil palm EFB (i.e. Arah Kawasan Sdn Bhd) has ceased to be a related party. Any subsequent purchase of oil palm EFB from the said supplier will no longer be considered as related party transaction.

The above transactions are necessary for the Group's day-to-day operations and are undertaken in the ordinary course of business. The above transactions are carried out on terms not more favourable to the related parties than those generally available to the public, which are not to the detriment of the non-controlling shareholders of the Group.

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**ADDITIONAL INFORMATION REQUIRED BY THE ACE MARKET LISTING
REQUIREMENTS OF BURSA SECURITIES**

B1. ANALYSIS OF PERFORMANCE

Revenue

Our Group's total revenue for the current quarter and financial period ended 30 September 2018 stood at RM30.00 million and RM87.04 million respectively, representing an improvement of RM0.66 million or 2.25% and RM1.50 million or 1.75% respectively as compared to the preceding year corresponding quarter and period.

Current Quarter Under Review

The improved sales performance was primarily attributable to the increase in sales volume of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre, by approximately 21.64%.

However, the growth was partially offset by the following:

- (i) Decrease in sales volume of oil palm EFB fibre, where total quantities sold during the current quarter under review has reduced by approximately 3.69% as compared to the preceding year corresponding quarter. The decrease was in tandem with the gradual slowdown in economic growth of China; and
- (ii) Decrease in average selling prices of oil palm EFB fibre, which has reduced by approximately 0.73% as compared to the preceding year corresponding quarter.

Current Financial Period Under Review

The improved sales performance was primarily attributable to the increase in sales volume of bio-oil, which has improved by approximately 41.65% as compared to the preceding year corresponding period.

However, the growth was partially offset by the following:

- (i) Decrease in sales volume of oil palm EFB fibre during the financial period under review by approximately 5.89% as compared to preceding year corresponding period. The decrease was due to the moderation of sales performance in first quarter of 2018; and
- (ii) Decrease in average selling prices of oil palm EFB fibre, which has reduced by approximately 4.52% as compared to the preceding year corresponding period.

Profit Before Tax

Our Group reported a profit before tax of approximately RM0.01 million for the current quarter and a loss before tax of approximately RM0.48 million for the financial period ended 30 September 2018, representing a decrease of approximately 99.55% and 111.54% respectively as compared to the preceding year corresponding quarter and period.



B1. ANALYSIS OF PERFORMANCE (cont'd)

The moderation of profit before tax for the current quarter and financial period under review as compared to the preceding year corresponding quarter and period, was primarily due to the increase in cost of sales as a result of higher production costs.

The decrease in profit before tax was, however, partially offset by the decrease in administrative and other expenses, which was in line with the cost savings initiatives by our Group.

Profit After Tax

In line with the moderation of profit before tax as explained above, our Group reported a profit after tax of approximately RM0.36 million for the current quarter and a loss after tax of approximately RM0.06 million for the financial period ended 30 September 2018, representing a decrease of approximately 71.43% and 102.26% respectively as compared to the preceding year corresponding quarter and period.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 30.09.2018	Preceding quarter ended 30.06.2018
	RM'000	RM'000
Profit/(Loss) before tax	9	542

Our Group recorded a profit before tax of approximately RM0.01 million for the current quarter ended 30 September 2018, decreased by approximately RM0.53 million or 98.15% as compared to the preceding quarter ended 30 June 2018. The moderation in performance was primarily due to lower gross profit recorded, which was in line with the decrease in revenue from sales of oil palm EFB fibre and bio-oil by approximately RM2.87 million or 15.83% and RM0.08 million or 2.04% respectively.

B3. PROSPECTS

Looking ahead, our Group expect the orders for oil palm EFB fibre from China, being the primary market, will experience greater degree of volatility due to its gradual slowdown in economic growth, reflecting slowing external demand growth and necessary financial regulatory tightening. The China economy continues to make the transition to a more sustainable growth path with continued financial de-risking and environmental controls. *(Source: World Economic Outlook – October 2018, International Monetary Fund)*

Our Group is ramping up efforts in expanding the market coverage to the rest of the Asia region besides China, in an attempt to mitigate the gradual slowdown in economic growth of China. Notwithstanding that, our Group remain cautiously optimistic that orders for oil palm EFB fibre from China in the mid and long term will be promising backed by the rising population in China and increasing demand for raw material alternatives that are cheaper, natural and environmentally-friendly.



B3. PROSPECTS (cont'd)

Following the completion and commencement of our Group's new production plant at Gua Musang, our Group is better positioned to step up the efforts in penetrating new customer segment as well as expanding the market coverage.

The Board will monitor the market development closely, and ensure that prompt actions are taken in response to the changes. Moreover, the Board will, from time to time, identify appropriate new business venture/ opportunity to enhance and expand the Group's revenue base and source.

Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's operations for the financial year ending 31 December 2018 will remain stable.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as no profit forecast or profit guarantee has been previously published or issued by the Group.

B5. TAX INCOME

	Current quarter ended 30.09.2018 RM'000	Year-to-date ended 30.09.2018 RM'000
Current tax income	320	179
Deferred tax income	31	240
Total tax income	<u>351</u>	<u>419</u>

The tax income position for the current quarter and financial period under review was primarily due to deferred tax assets recognised in relation to the losses incurred by the Group's operating subsidiaries and over-provision of income tax expenses in one of the Group's operating subsidiaries.

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 September 2018 are as follows:-

	Short Term (Within 12 months) RM'000	Long Term (> 12 months) RM'000	Total RM'000
<i>Secured and guaranteed</i>			
Bankers' acceptance	13,350	-	13,350
Bank overdrafts	12,793	-	12,793
Hire purchase payables	3,695	5,272	8,967
Term loans	3,866	13,840	17,706
Total Borrowings	33,704	19,112	52,816

All the borrowings are denominated in Ringgit Malaysia (RM), and obtained from financial institutions based in Malaysia.

B8. EARNINGS PER SHARE

Basic Earnings per Share ("BEPS")

	Current quarter ended		Year-to-date ended	
	30.09.2018 RM'000	30.09.2017 RM'000	30.09.2018 RM'000	30.09.2017 RM'000
Basic earnings per share				
Profit/(Loss) attributable to equity holders of the parent	343	1,258	(93)	2,779
Weighted average number of ordinary shares in issue ('000)	308,700	308,700	308,700	308,700
BEPS (sen)	0.11	0.41	(0.03)	0.90

Diluted Earnings per Share ("DEPS")

No diluted earnings per share is disclosed as the Company does not have any dilutive potential ordinary shares (such as options or convertible instruments) in issue as at 30 September 2018.

B9. CHANGES IN MATERIAL LITIGATION

As at the 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 of Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.



B10. DISCLOSURE ON SELECTED INCOME/EXPENSE ITEMS

Included in profit before tax comprised the following income/(expense) items:

	Current quarter ended 30.09.2018 RM'000	Year-to-date ended 30.09.2018 RM'000
Interest income	42	57
Other income including investment income	2	275
Interest expense	(809)	(2,533)
Depreciation expenses	(2,509)	(7,770)
Amortisation expenses	(299)	(898)
Net foreign exchange gain/(loss)	(88)	(364)
Gain on disposal of property, plant and equipment	64	134
Fair value loss on derivative instruments	(104)	(364)
Provision of impairment of receivables	-	(4)
Property, plant and equipment written off	(55)	(61)
Provision for doubtful debts and write-off of receivables	-	-
Intangible assets written off	-	-
Impairment of assets	-	-
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Exceptional items	-	-

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B11. FINANCIAL INSTRUMENTS

Derivatives

The Group have entered into forward foreign currency contracts to operationally hedge forecast sales collection denominated in foreign currency that are expected to occur at various dates within the next (12) months from the end of the reporting period.

As at 30 September 2018, the Group have the following outstanding forward currency contracts:

Type of Derivatives	[----Contract/ Notional Value-----]		Fair value
	USD'000	RM'000 equivalent	as at 30.09.2018 RM'000
Forward Foreign Currency Contracts			
- Less than 1 year	1,715	6,859	6,627
	<u>1,715</u>	<u>6,859</u>	<u>6,627</u>

Type of Derivatives	[----Contract/ Notional Value-----]		Fair value
	CNY'000	RM'000 equivalent	as at 30.09.2018 RM'000
Forward Foreign Currency Contracts			
- Less than 1 year	100	60	59
	<u>100</u>	<u>60</u>	<u>59</u>

The fair value of a forward foreign currency contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and the forward exchange rate as at the end of each reporting period applied to a contract of similar amount and maturity profile.

The difference between the forward rates entered into, and the market rates, is recognised as derivatives liability or asset as applicable with a corresponding amount reported in the profit or loss.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2017 in respect of the followings:

- (i) the credit risk market risk and liquidity risk associated with the derivatives;
- (ii) the cash requirements of the derivatives;
- (iii) the policies in place for mitigating or controlling the risks associated with the derivatives;
and
- (iv) the related accounting policies.



Gains / (Losses) arising from Fair Value Changes of Financial Liabilities

The Group recorded net fair value loss of approximately RM364,000 during the financial period under review, as a result of reversal of derivative asset associated with forward foreign currency contracts which lapsed during the current quarter under review and after offsetting fair value changes of the forward foreign currency contracts entered into by the Group and outstanding as at 30 September 2018.

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