Interim Report for the 3-months Financial Period Ended 31 March 2016

A. EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134, INTERIM FINANCIAL REPORTING

1. Basis of Preparation

This interim financial report is unaudited and has been prepared in accordance with MFRS 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB"), and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

This unaudited interim financial report should be read in conjunction with the annual audited financial statements of the Group for the financial period ended 31 December 2015. For the financial period up to 31 December 2015 and including the financial period ended 31 March 2016, the Group prepared its financial statements in accordance with the Malaysian Financial Reporting Standards ("MFRS").

The explanatory notes attached to the interim financial report provide an explanation of events and transactions that are significant to an understanding of the change in the financial position and performance of Halex Holdings Berhad ("Halex" or the "Company") and its subsidiaries (the "Group") since the financial period ended 31 December 2015.

2. Significant Accounting Policies

a. The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and IC interpretations of the MFRS that have been issued by the MASB but are not yet effective and have not been adopted by the Group:-

Effective for financial periods beginning on or after 1 January 2018:

• MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)
• MFRS 15	Revenue from Contracts with Customers

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations when they become effective in the respective financial periods.

The Group and the Company are in the process of assessing the impact of implementing these Standards, since the effects would only be observable for the future financial years.

b. *Agriculture : Bearer Plants (*Amendments to MFRS 116 and MFRS 141)

During the financial period, the Group has adopted Amendments to MFRS 141 and MFRS 116 which is effective on 1 January 2016.

The Amendment to MFRS 116 equates a bearer biological plant with a physical plant or machine that produces goods separately. A bearer plant within the scope of MFRS 116 is defined as "a living plant that:

(a) is used in the production or supply of agricultural produce;
(b) is expected to bear produce for more than one period; and
(c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales"

In Halex group's horticulture & agro-biotechnologies business, the fronds growing on mother bearer plants is the produce growing on a bearer plant, which is not a bearer plant. This means that the mother bearer plants would need to be bifurcated, a bare biological plant (excluding the growing produce) that is treated as manufacturing plant within the scope of MFRS 116, and fronds growing on trees are then treated as a consumable biological asset and remain within the scope of MFRS 141. The effect of this requirement is to convert the fronds growing on mother bearer plants to a stand-alone consumable biological asset for its separate accounting.

At the date of transition to the Amendment in MFRS 116, the Group had opted to measure the bare bearer plants at revalued amount (deemed cost). This would be at its fair value at the beginning of the earliest period presented in the financial statements for the reporting period in which the entity first applies *Agriculture: Bearer Plants* (Amendments to MFRS 116 and MFRS 141) and use that fair value as its deemed cost at that date. The carrying amount of the bearer plants is subject to systematic depreciation and annual impairment test.

As the Amendments would result in changes in the recognition of produce growing on plants and the measurement of both mother bearer plants and produce growing on plants, the effects of the changes shall be accounted for as changes in accounting policies in accordance with MFRS 108. The requirement of MFRS 108 is that the effects of the changes in accounting policies shall be applied *retrospectively*, as if the new policies have always been applied.

Note that any prior period adjustments to the opening retained profits shall net of the related deferred tax effect. Fair value gains of biological assets give rise to taxable temporary differences for which the related deferred tax liabilities, measured at the current income tax, is recognised or provided for.

On adoption of these Amendments to MFRSs, a prior year adjustment was made as follows and the Statement of :-

	RM'000
Biological Assets	26,036
Property, plant and equipment – Bearer Plant (cost)	(26,831)
Property, plant and equipment – Bearer Plant (accumulated depreciation)	671
Deferred Taxation liabilities	421
Decrease in Reserves	297

3. Auditors' Report on Preceding Annual Financial Statements

The auditors' report for the Company's preceding annual audited financial statements for the financial period ended 31 December 2015 were not subject to any qualification.

4. Seasonal or Cyclical Factors

The Group's agriculture supplies & trading and horticulture & agro-biotechnologies businesses are sensitive to prolonged extreme weather conditions.

5. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current quarter under review and financial year to-date.

6. Material Changes in Estimates

There were no material changes in estimates of amount reported that have a material effect on the current quarter under review and financial year to-date except as disclosed in the financial statements.

7. Details of Changes in Debts and Equity Securities

There were no issuance, cancellation, repurchase, resale or repayment of debt and/or equity securities during the current quarter under review and financial year to-date.

8. Dividend

There were no dividends proposed or paid during the quarter under review.

9. Segmental Reporting

	3-months ended 31 March 2016					
	Investment holding RM'000	**Agriculture Supplies & Trading RM'000**	**Consumer Products RM'000**	**Horticulture & Agro-biotechnologies RM'000**	**Eliminations RM'000**	**Consolidated RM'000**
Revenue						
External sales	-	8,213	7,795	1,269	-	17,277
Inter-segment sales	-	1,196	-	2	(1,198)	-
Dividend income	-	-	-	-	-	-
Total	-	9,409	7,795	1,271	(1,198)	17,277
Results						
Segment results	(451)	(354)	420	175	27	(183)
Finance costs	-	(321)	(39)	-	-	(360)
Finance income	-	-	2	-	-	2
Share of results of associate	(24)	-	-	-	-	(24)
Profit/(Loss) before taxation	(475)	(675)	383	175	27	(565)
Taxation						(51)
Loss after taxation						(616)

10. Valuation of Property, Plant and Equipment

The values of property, plant and equipment have been brought forward reinstated with adjustments for the adoption of the amendments to MFRS 116 and 141 from the Company's previous annual audited financial statements for the financial period ended 31 December 2015.

11. Changes in the Composition of the Group

Halex Holdings Berhad ("HHB" or "the Company") has, on 5 May 2016, acquired the entire issued and paid-up capital of the following companies from third parties:

(i) Halex Management Sdn. Bhd. (Company No. 1164355-A) ("HMSB") comprising of two (2) ordinary shares of RM1.00 each for a cash consideration of RM2.00. Following the Acquisition, HMSB will be a wholly-owned subsidiary of HHB.
(ii) Halex Trading Sdn. Bhd. (Company No. 1164360-M) ("HTSB") comprising of two (2) ordinary shares of RM1.00 each for a cash consideration of RM2.00. Following the Acquisition, HTSB will be a wholly-owned subsidiary of HHB.
(iii) Halex Ventures Sdn. Bhd. (Company No.1164346-X) ("HVSB") comprising of two (2) ordinary shares of RM1.00 each for a cash consideration of RM2.00. Following the Acquisition, HVSB will be a wholly-owned subsidiary of HHB.

Information on HMSB, HTSB and HVSB

HMSB, HTSB and HVSB are companies incorporated on 2 November 2015 with an authorised share capital of RM400,000.00 divided into 400,000 ordinary shares of RM1.00 each and an issued paid-up capital of RM2.00. HMSB, HTSB and HVSB are currently dormant.

12. Contingent Liabilities

The contingent liabilities are as follows:

	Company	
	As At 31/3/2016 RM'000	**As At 31/12/2015 RM'000**
Guarantees given to financial institutions for facilities granted to subsidiaries	48,263	48,263

13. Capital Commitments

As at 31 March 2016, the Group has outstanding capital commitment amounting to RM17,170,000, being balance of 83% of the total RM21 million of purchase consideration in respect of the acquisition of the remaining 3,750,000 shares in Kensington Development Sdn. Bhd.. Details of information are disclosed in **Note B.8.a (i).**

14. Material Events Subsequent to the End of the Interim Reporting Period

There are no material events subsequent to the end of the current quarter except for those disclosed under **Note A.11**.

15. Disclosure On Realised and Unrealised Profits

	Group	
	As At 31/3/2016 RM'000	**Restated As At 31/12/2015 RM'000**
Retained earnings of the Company and its subsidiaries:		
- Realised profit	11,442	12,362
- Unrealised profit	37,278	37,001
	48,720	49,363
Share of results of associate	(24)	(107)
	48,696	49,256
Consolidation adjustments	90	146
Total retained profit	48,786	49,402

HALEX GROUP

HALEX HOLDINGS BERHAD (206220-U)

(Incorporated in Malaysia under the Companies Act, 1965)

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B. ADDITIONAL INFORMATION REQUIRED PURSUANT TO THE MAIN MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

1. Review of Performance of the Group

	Current year Quarter ended 31/3/2016 (RM'000)	Preceding year Quarter ended 31/3/2015 (RM'000)
Revenue	17,277	31,244
(Loss)/profit before tax	(565)	1,179

For the quarter ended 31 March 2016, the Group registered revenue of RM17.277 million, representing a decrease of RM13.967 million or 44.7% as compared to the corresponding quarter of the preceding year.

The decrease in revenue was mainly due to weaker consumer sentiments affecting consumer products segment sales, the El Nino weather phenomenon bringing prolonged drought affecting agriculture supplies segment sales, coupled with the impact of Goods and Services Tax and the effects of the weaker Ringgit.

During the current quarter, the Group has recorded a loss before tax of RM0.565 million against a profit before tax of RM1.179 million in the corresponding quarter of the preceding year.

The loss before taxation during the quarter was mainly due to higher operational costs and offset by the fair value gain from biological assets of RM0.348 million.

2. Comparisons with the Immediate Preceding Quarter's Results

	(3 mths) Current Quarter ended 31/3/2016 (RM'000)	Restated (3 mths) Preceding Quarter ended 31/12/2015 (RM'000)
Revenue	17,277	20,028
Loss before tax	(565)	(3,631)

For the quarter ended 31 March 2016, the Group registered revenue of RM17.277 million, representing a decrease of RM2.751 million or 13.7% as compared to the immediate preceding quarter.

The decrease in revenue was mainly due to cautious consumer spending and the prolonged drought affecting agriculture supplies segment sales.

During the current quarter, the Group has recorded a loss before tax of RM0.565 million and in the immediate preceding quarter, the Group recorded a loss before tax of RM3.631 million.

The loss before taxation reduced during the current quarter mainly due to the one-off write down of certain fertilizers totaling RM1.875 million in the preceding quarter.

3. Year 2016 Prospects

The year of 2016 has started on an extremely challenging front.

The lower consumer confidence has affected consumer spending patterns with noticeable slowdown in its consumer products business segment. To mitigate this, the Group has increased its business development activities in regional markets with the recent penetration into Singapore and upcoming market entry into another key South East Asian nation.

This has also impacted the agriculture supplies sector which is compounded by the El Nino weather phenomenon that has brought prolonged drought and sweltering heat. To overcome this slowdown, the Group aims to improve its market share by focusing on new products to its key markets.

In view of all the challenges noted above, the Group maintains its cautious outlook and will strive to achieve its plans for the year.

4. Financial Forecast and Profit Guarantee

The Group has not provided any financial forecast or profit guarantee in any public document.

5. Taxation

The taxation figures are as follows:

	Individual Quarter Current Year Quarter 31/3/2016 RM/000	**Cumulative Quarter Current Year to-Date 31/3/2016 RM/000**
Deferred tax	(51)	(51)
Income tax	-	-
	(51)	(51)

The effective tax rate of the Group for the current quarter under review is higher than the statutory tax rate of 24% due to certain subsidiaries incurred losses during the financial year-to-date and reversal of deferred taxation.

6. Sales of Unquoted Investments and/or Properties

On 3 February 2016, Halex Biotechnologies Sdn. Bhd., a wholly–owned subsidiary of the Company entered into a sale and purchase agreement with Wan Kok Huat and Ling Lee Chew to dispose a piece of agriculture land for a consideration of RM2,400,000. The disposal does not have a material impact on the Group's results.

7. Quoted Securities

(a) Purchases and disposals of quoted securities:

There were no purchases or disposals of quoted securities for the current quarter and the preceding year quarter.

(b) Investments in quoted securities:

	Group	
	As At 31/3/2016 RM'000	**As At 31/12/2015 RM'000**
As at beginning of period/year	246	129
Gain in fair value adjustment	-	74
As at end of the period/year	246	203
At market value	246	203

8. Status of Corporate Proposal

a. **i) Proposed acquisition by Halex Realty Sdn Bhd of the remaining 75% equity interest in Kensington Development Sdn Bhd comprising 3,750,000 ordinary shares of RM1.00 each from Bestempire Limited via cash consideration of RM21,000,000;**

ii) Proposed diversification of the existing core business of Halex Holdings Berhad ("Halex" or "the Company") and its subsidiaries to include property development;

iii) Proposed renounceable two-call rights issue of new ordinary shares of RM0.50 each in Halex ("Shares") together with free detachable warrants to the shareholders of Halex whose names appear in the Record of Depositors of the Company on the date to be determined by the Board of Directors of Halex, to raise gross proceeds of up to RM40 million;

iv) Proposed establishment and implementation of the Employee Share Scheme ("ESS") of up to ten percent (10%) of the Company's total issued and paid-up share capital (excluding treasury shares) at any one time during the duration of the ESS for the executive director(s) and/or employee(s) of Halex and its non-dormant subsidiary companies who meets the criteria for participation in the ESS as set out in the by-laws governing the ESS;

v) Proposed increase in the authorised share capital of Halex from RM100,000,000 comprising 200,000,000 Shares to RM500,000,000 comprising 1,000,000,000 Shares; and

vi) Proposed amendment to the Memorandum and Articles of Association of Halex.

(Collectively the "**Proposals**")

The details of the Proposals can be referred to in the announcements made to Bursa Malaysia Securities Berhad on 20 March 2015, 21 April 2015, 16 July 2015, 3 August 2015, 3 September 2015 and 14 December 2015 respectively.

b. Proposed acquisition by Halex Holdings Berhad ("Halex" or the "Company") of 140,000 ordinary shares of RM1.00 each representing 70% equity interest in the issued and paid-up share capital of SL Aktif Sdn Bhd for a cash consideration of RM100,000.00 (the "Proposed Acquisition")

As announced on 1 March 2016, the Company had terminated the SSA with vendors of SLASB due to unsatisfactory review of due diligence and shareholding issues.

c. Proposed share sale and purchase agreement ("SSA") entered into by Halex (M) Sdn Bhd, a wholly-owned subsidiary of Halex; with Alfie Bin Othman and Intan Azlina Binti Mazlan for the acquisition of 100,000 ordinary shares of RM1.00 each representing 100% equity interest in the issue and paid-up share capital of Pengedaran Beras Lestari Sdn Bhd for a consideration of RM150,000.

As announced on 1 March 2016, Halex (M) Sdn Bhd, a wholly-owned subsidiary of Halex had entered into the SSA with Alfie Bin Othman and Intan Azlina Binti Mazlan for the acquisition of 100,000 ordinary shares of RM1.00 each representing 100% equity interest in the issue and paid-up share capital of Pengedaran Beras Lestari Sdn Bhd ("PBLSB") for a consideration of RM150,000.

Upon completion of the Proposed Acquisition, PBLSB will become a 100% owned subsidiary of HMSB.

9. Borrowings

The Group's borrowings as at 31 March 2016 and 31 December 2015 are as follows:

	Secured As at 31/3/2016 RM'000	Secured As at 31/12/2015 RM'000
Short-term borrowings		
Finance lease and hire purchase payable	53	56
Bills payable	2,133	3,836
Term loan	2,143	2,143
Bank overdraft	1,976	3,304
	6,305	9,339
Long-term borrowings		
Finance lease and hire purchase payable	92	105
Term loan	9,958	10,375
	10,050	10,480
Total	16,355	19,819

There was no unsecured debt during the current quarter and financial year to-date.

10. Material Litigation

There were no material litigations involving the Group as at the date of this interim report.

11. Earnings Per Share

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company for the period by the weighted average number of ordinary shares in issue during the financial period under review.

	Individual Quarter Current Year Quarter 31/3/2016	**Cumulative Quarter Current Year to-Date 31/3/2016**
Loss attributable to equity holders of the Company (RM'000)	(616)	(616)
Weighted average number of ordinary shares in issue ('000)	105,973	105,973
Basic loss per share (sen)	(0.58)	(0.58)

(b) Diluted

The calculation of diluted earnings per ordinary share is the same with basic earnings per ordinary share as the Group has no dilutive potential ordinary shares.

12. Notes To The Statements Of Comprehensive Income

The following items have been included in arriving at loss before tax:-

	Individual Quarter Current Year Quarter 31.3.2016 (RM'000)	**Cumulative Quarter Current Year To Date 31.3.2016 (RM'000)**
Interest income	7	7
Other income including investment income	67	67
Interest expense	360	360
Depreciation and amortisation	589	589
Provision for and write off of receivables	45	45
Provision for and write off of inventories	-	-
Gain/ (Loss) on disposal of quoted or unquoted investments or properties	-	-
Impairment of assets	-	-
Foreign exchange gain or loss - Unrealised	70	70
Gain or loss on derivatives	-	-
Exceptional items	-	-

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By Order of the Board
HALEX HOLDINGS BERHAD
(206220 – U),

Lim Hooi Mooi
Company Secretary
Kuala Lumpur
31 May 2016