

TATT GIAP GROUP BERHAD

(732294-W)

(Incorporated in Malaysia)

Unaudited condensed consolidated statement of comprehensive income for the period ended 30 November 2017

	Individual period Current year quarter 30-Nov-17 RM'000	Individual period Preceding year to quarter 30-Nov-16 RM'000	Cumulative period Current year to date 30-Nov-17 RM'000	Cumulative period Preceding year to date 30-Nov-16 RM'000
Continuing operations	Note			
Revenue	17,661	24,918	39,585	49,777
Cost of sales	(18,902)	(25,178)	(40,092)	(48,560)
Gross profit / (loss)	(1,241)	(260)	(507)	1,217
Distribution costs	(527)	(893)	(1,522)	(1,858)
Administrative expenses	(2,251)	(2,308)	(3,587)	(4,649)
Other operating expenses	(153)	(67)	(407)	(113)
Other operating income	2,238	905	3,154	23,965
Results from operating activities	(1,934)	(2,623)	(2,869)	18,562
Finance costs	(2,002)	(1,837)	(3,574)	(4,343)
Operating profit / (loss)	1 (3,936)	(4,460)	(6,443)	14,219
Share of profit of equity accounted associates, net of tax	652	13	1,181	167
Profit/(loss) before tax	(3,284)	(4,447)	(5,262)	14,386
Income tax expense	-	-	-	(22)
Profit/(loss) from continuing operations	(3,284)	(4,447)	(5,262)	14,364
Other comprehensive income, net of tax				
Profit on available-for-sale financial assets	-	-	-	19
Total comprehensive income/(expense) for the period	(3,284)	(4,447)	(5,262)	14,383
Profit/(loss) for the period attributable to:				
Owners of the Company	(2,493)	(3,663)	(3,469)	16,178
Non-controlling interests	(791)	(784)	(1,793)	(1,814)
Profit/(loss) for the period	(3,284)	(4,447)	(5,262)	14,364
Total comprehensive income/(expense) attributable to:				
Owners of the Company	(2,493)	(3,663)	(3,469)	16,197
Non-controlling interests	(791)	(784)	(1,793)	(1,814)
Total comprehensive income/(expense) for the period	(3,284)	(4,447)	(5,262)	14,383
Basic profit/(loss) per ordinary share (sen)	(1.61)	12.63	(2.24)	12.63
Diluted profit/(loss) per ordinary share (sen)	(1.61)	12.63	(2.24)	12.63

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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(Incorporated in Malaysia)

Unaudited condensed consolidated statement of comprehensive income for the period ended 30 November 2017 (continued)

for the period ended 30 November (continued)

	Individual period Current year quarter 30-Nov-17 RM'000	Individual period Preceding year to quarter 30-Nov-16 RM'000	Cumulative period Current year to date 30-Nov-17 RM'000	Cumulative period Preceding year to date 30-Nov-16 RM'000
Note:				
1. Operating profit is arrived at:				
After charging:				
- Impairment loss on trade & other receivables	90	210	300	420
- Depreciation on property, plant and equipment	1,032	1,837	2,367	3,546
- Realized loss on foreign exchange	51	107	151	155
- Interest expense	2,002	1,660	3,574	4,166
After crediting:				
- Gain on disposal of plant and equipment	297	1,677	297	24,271
- Realised gain on foreign exchange	452	(193)	563	122
- Bad debts recovered	-	6	-	12
- Dividend income	-	-	113	8
- Interest income	4	21	6	26

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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(Incorporated in Malaysia)

Unaudited condensed consolidated statement of financial position for the period ended 30 November 2017

	30-Nov-17 RM'000	Audited 31-May-17 RM'000
Assets		
Property, plant and equipment	91,214	123,166
Investment in associates	7,348	6,234
Other investments	20	20
Total non-current assets	<u>98,582</u>	<u>129,420</u>
Inventories	16,585	6,892
Trade and other receivables	48,334	28,476
Current tax assets	17	227
Assets classified as held for sales	22,510	-
Cash and cash equivalents	12,065	8,383
Total current assets	<u>99,511</u>	<u>43,978</u>
Total assets	<u>198,093</u>	<u>173,398</u>
Equity		
Share capital	84,681	82,575
Reserves	(62,609)	(60,688)
Total equity attributable to owners of the Company	<u>22,072</u>	<u>21,887</u>
Non-controlling interests	15,900	11,693
Total equity	<u>37,972</u>	<u>33,580</u>
Liabilities		
Loans and borrowings	23,637	23,334
Other Payables	7,814	10,126
Deferred tax liabilities	6,133	6,133
Total non-current liabilities	<u>37,584</u>	<u>39,593</u>
Loans and borrowings	60,587	68,894
Trade and other payables	59,982	29,363
Current tax liabilities	1,968	1,968
Total current liabilities	<u>122,537</u>	<u>100,225</u>
Total liabilities	<u>160,121</u>	<u>139,818</u>
Total equity and liabilities	<u>198,093</u>	<u>173,398</u>

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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Unaudited condensed consolidated statement of changes in equity for the period ended 30 November 2017

	----- <i>Attributable to owners of the Company</i> -----						Total	Non- controlling interest	Total Equity
	----- <i>Non-distributable</i> -----			----- <i>Distributable</i> -----					
	Share capital	Share premium	Reverse Acquisition Reserve	Fair value	Revaluation Reserve	Retained earning / (losses)			
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 June 2016	77,552	5,023	(53,300)	(47)	23,579	(27,940)	24,867	14,327	39,194
Fair value of available-for sale financial assets	-	-	-	-	-	10	10	9	19
Profit for the period	-	-	-	-	-	16,177	16,177	(1,814)	14,363
Total comprehensive income / (expense) for the period	-	-	-	-	-	16,187	16,187	(1,805)	14,382
At 30 November 2016	77,552	5,023	(53,300)	(47)	23,579	(11,753)	41,054	12,522	53,576
At 1st June 2017	82,575	-	(53,300)	(27)	21,115	(26,929)	23,434	11,693	35,127
Loss for the period	-	-	-	-	-	(3,469)	(3,469)	(1,792)	(5,261)
Total comprehensive income / (expense) for the period	-	-	-	-	-	(3,469)	(3,469)	(1,792)	(5,261)
Issued of share capital - private placement	2,106	-	-	-	-	-	2,106	-	2,106
Issued of preference redeemable convertible share	-	-	-	-	-	-	-	6,000	6,000
At 30 November 2017	84,681	-	(53,300)	(27)	21,115	(30,398)	22,071	15,901	37,972

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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Unaudited condensed consolidated statement of cash flows for the period ended 30 November 2017

	Note	6 months period to 30-Nov-17 RM'000	12 months period to 31-May-17 (Audited) RM'000
Cash flows from operating activities			
Loss before tax		(5,263)	(10,697)
Adjustments for:			
Depreciation on property, plant and equipment		2,367	3,917
Impairment loss on:			
- plant and equipment		-	11,021
- other investment		-	2,056
Interest expense		3,574	8,305
Interest income		(6)	(295)
Gain on disposal of:			
- plant and equipment		-	(416)
- assets classified as held for sale		-	(16,235)
- other investment		-	(28)
Dividend income		-	(9)
Share of (profit)/loss of equity accounted associates, net of tax		(1,114)	(1,965)
Operating loss before working capital changes		<u>(442)</u>	<u>(4,346)</u>
Changes in working capital:			
Inventories		(9,693)	14,253
Trade and other receivables		(19,858)	4,504
Trade and other payables		40,493	(22,691)
Cash (used)/generated from operations		<u>10,500</u>	<u>(8,280)</u>
Income taxes refund / (paid)		210	(150)
Net cash (used) / from operating activities		<u>10,710</u>	<u>(8,430)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	A	(212)	(3)
Proceeds from disposal of:			
- property, plant and equipment		5,800	16,455
- other investments			
- assets classified as held for sale		-	37,969
Private Placement		2,106	-
Issue of Preference Share		6,000	-
Net cash inflow on disposal of a subsidiary	B	-	-
Interest received		6	295
Dividends received		-	9
Net cash from investing activities		<u>13,700</u>	<u>54,725</u>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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Unaudited condensed consolidated statement of cash flows for the period ended 30 November (continued)

	Note	6 months periods to 30-Nov-17 RM'000	12 months periods to 31-May-17 (Audited) RM'000
Cash flows from financing activities			
Advances / (Repayment) from a Director		(9,151)	10,126
Interest paid		(3,574)	(8,305)
Repayment of term loans		(1,487)	(8,972)
Repayment of other borrowings, net		(16,503)	(33,144)
Repayment of finance lease liabilities		(764)	(2,973)
Uplift of pledged short-term deposits		-	1,985
Net cash used in financing activities		<u>(31,479)</u>	<u>(41,283)</u>
Net increase/(decrease) in cash and cash equivalents		(7,069)	5,012
Cash and cash equivalents as at beginning of financial period		(631)	(5,643)
Cash and cash equivalents as at end of financial period	C	<u><u>(7,700)</u></u>	<u><u>(631)</u></u>

Notes:

A. Acquisition of property, plant and equipment

During the financial period ended 30 November 2017, the Group has additional property, plant and equipment of RM 212k.

B Disposal of a subsidiary

The disposal, which was completed on 2nd August 2017, had the following effect on the financial position of the Group

	RM
Trade and receivable	44,391
Cash & cash equivalent	22,570
Trade and other payables	<u>(245,040)</u>
Net liabilities relieved	(178,079)
Gain on disposal of investment in a subsidiary	<u>178,080</u>
Consideration received, satisfied in cash	<u>1</u>

C Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts:

Cash and bank balances	8,636	4,955
Bank overdrafts	<u>(16,120)</u>	<u>(5,370)</u>
Cash and cash equivalents	<u><u>(7,484)</u></u>	<u><u>(415)</u></u>

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

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for the period ended 30 November 2017

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

A1. Basis of preparation

The condensed consolidated interim financial statements have been prepared on the historical cost basis, other than property land and building which have been prepared on valuation basis. The condensed consolidated interim financial statements are unaudited and have 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.

The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 May 2017. These explanatory notes attached to the interim financial statements 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 May 2017.

The following revised MFRSs and Amendments to MFRSs applicable to the Group have been issued by the MASB and are not yet effective for adoption by the Group.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 12	Disclosure of Interests in Other Entities (Annual Improvements to MFRS Standard 2014-2016 Cycle)
Amendments to MFRS 107	Statement of Cash Flows - Disclosure Initiative
Amendments to MFRS 112	Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

MFRS 9	Financial Instruments (2014)
MFRS 15	Revenue from Contracts with Customers
Clarifications to MFRS 15	Revenue from Contracts with Customers
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual improvements to MFRS Standards 1014-2016 Cycle)
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to MFRS 4	Insurance Contracts- Applying MFRS 9 Financial Insurance Contracts- Applying MFRS 9 Financial
Amendments to MFRS 128	Investment in Associates and Joint Ventures (Annual Improvement to MFRS Standards 2014-2016 Cycle)
Amendments to MFRS 140	Investment Property - Transfer of Investment Property

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A1. Basis of preparation (continued)

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

MFRS 16	Leases
IC Interpretation 23	Uncertainty over Income Tax Treatments

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

MFRS 17	Insurance contracts
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MFRSs, Interpretations and amendments effective for a date yet to be confirmed

Amendments to MFRS 10, Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

The adoption of the above standards and amendments are not expected to have any material financial impact to the Group upon their first adoption other than MFRS 9, Financial Instruments and also MFRS 15, Revenue from Contracts with Customers which the Group is currently assessing the financial impact.

A2. Auditor's report on preceding annual financial statements

The auditor's report on the audited annual financial statements for the financial year ended 31 May 2017 was not qualified.

A3. Seasonality or cyclical factors

The business operations of the Group is not subject to seasonal or cyclical factors.

A4. Exceptional and extraordinary items

There were no items affecting assets, liabilities, equity, net income or cash flows that are exceptional or extraordinary due to their nature, size or incidence affecting the interim financial report except those disclosed in note A10.

A5. Changes in estimates

There were no changes in estimates that had a material effect on the current quarter and period to date results.

A6. Debt and equity securities

There have been no issuances, cancellations, repurchases, resale and repayments of debts and equity securities during the current quarter.

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A7. Dividend paid

There was no dividend paid by the Company in the current quarter and the period to date.

A8. Segmental information

The Group only has one reportable segment which is principally confined to the manufacturing and trading of stainless steel pipes, tubes and bars, electro-galvanized steel, perforated metal products and other ferrous and non-ferrous metal products. The Group's Executive Chairman (the chief operating decision maker) reviews internal management reports on the reportable segments on a monthly basis.

Geographical segment

In presenting information on the basis of geographical segments, segmental revenue is based on the geographical location of customers.

Geographical information

	Individual period Current year quarter 30-Nov-17 RM'000	Individual period Current year quarter 30-Nov-16 RM'000	Cumulative period Current year to date 30-Nov-17 RM'000	Cumulative period Current year to date 30-Nov-16 RM'000
Segment revenue				
Malaysia	9,772	14,924	20,228	34,015
Asia (excluding Malaysia)	558	1,435	945	2,949
United States of America	1,457	1,107	1,755	2,966
South America	-	1,181	4,319	1,681
Europe	5,874	6,271	12,338	8,166
	17,661	24,918	39,585	49,777

A9. Property, plant and equipment

During the financial period ended 30 November 2017, the Group has additional property, plant and equipment of RM 212k.

A10. Material events during the reporting period

- (a) On 31 July 2017, the Company entered into a Share Sale and Purchase Agreement ("SSPA") with Hanwa Co., Ltd., a major shareholder of Tatt Giap Steel Centre Sdn. Bhd. ("TGSC"), a 51% owned subsidiary of the Company to dispose of 41% of its equity interest representing 16,400,000 ordinary shares in TGSC for total cash consideration of RM12,300,000. The completion of the SSPA is subject to fulfilment of the conditions precedent in the SSPA. Upon completion of the disposal, TGSC will cease to be a subsidiary of the Company. The Company is expected to recognise a gain arising from the disposal of about RM5.2 million for the financial year ending 31 May 2018 ("FY2018").

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- (b) On 1 August 2017, the Company entered into a SSPA to dispose of its entire 100% equity interest in TGMI Industries Sdn. Bhd. ("TGMI") for a cash consideration of RM1. At completion on 2 August 2018, TGMI ceased to be a subsidiary of the Company. The Group has recognised a gain on disposal of RM178,080 for the FY2018.
- (c) On 25 August 2017 and 25 September 2017, a wholly-owned subsidiary, Superinox Max Fittings Industry Sdn. Bhd. ("SMFI") entered into several Sale and Purchase Agreements ("SPAs") to dispose several of its plant and equipment for a total consideration of RM2.4 million. The disposal is completed and the Group has recognised a loss amounting to RM452k.
- (d) On 28 September 2017, the Company announced a proposed private placement of up to 10% of the total number of issued shares of the Company. The private placement exercise was completed on 30 November 2017 following listing of 15,510,000 new ordinary shares which were issued at RM0.1358 per ordinary share to raise RM2,106,258.
- (e) On 29 September 2017, a wholly-owned subsidiary, Superinox Pipe Industry Sdn. Bhd. ("SPI") has entered into 2 SPAs to dispose of some of its plant and equipment for a total cash consideration of RM12.3 million. The first SPA was completed with the sale of plant and equipment for RM5.8 million and the Group recognised a gain on disposal of RM2.15 million. The second SPA to dispose of plant and machinery for RM6.5 million was terminated.

A11. Changes in composition of the Group for the financial period ended 31 August 2017

Except as disclosed in Note A10(b), there have been no other changes to the Group's composition.

A12. Contingent liabilities

There were no material contingent liabilities or contingent assets to be disclosed as at the date of this report.

A13. Capital commitment

	Cumulative Period
	30-Nov-17
	RM'000
Contracted but not provided for in the financial statements	
- Investment in an associate - PT Indo Bestinox Industri	1,798

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A14. Significant related party transactions

	Current period	Cumulative period
	30-Nov-17	30-Nov-17
	RM'000	RM'000
(a) Substantial shareholders of a subsidiary		
- Purchases	(11,888)	(20,560)
- Interest expense	(113)	(150)
- Management fee	-	(5)
- Rental expense	(15)	(38)
- Corporate guarantee fee	90	90
	<u>90</u>	<u>90</u>
(b) Associates		
- Sales	104	156
- Purchases	67	(584)
- Management fee	-	99
	<u>-</u>	<u>99</u>
(c) Directors & persons connected to Directors		
- Purchases	(434)	(517)
- Interest expense	-	(58)
- Rental expense	(5)	(34)
- Rental income	284	363
- Personal guarantee fee	(76)	(153)
- Loan from Director	1,400	2,689
- Professional fee	(377)	(377)

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B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of performance

On a year-to-date basis ended 30 November 2017 ("1H FY2018"), the Group reported revenue of RM39.58 million, a RM10.19 million or 20.5% drop from RM49.78 million reported during the preceding year corresponding period. The drop in revenue was mainly due to drop in domestic market sales. The Group recorded a loss before tax ("LBT") of RM5.26 million as compared to a profit before tax ("PBT") of RM14.39 million over the same comparative period. This was mainly due to (i) the PBT reported in the preceding year corresponding period was to a one-off gain on disposal of assets classified as held for sale of RM16.23 million; and (ii) The erosion of gross margin as a result of low production output.

B2. Variation of results against preceding quarter

	This quarter	Preceding quarter
Revenue (RM'000)	17,661	21,924
LBT (RM'000)	(3,284)	(1,987)

The Group achieved revenue of RM17.66 million and LBT of RM3.28 million during the quarter under review as compared to revenue of RM21.92 million and LBT of RM1.99 million reported in the immediate preceding quarter ended 31 August 2017. The drop in revenue was due to decline in export sales to South America region, mainly Brazil, due to the delay of the anti-dumping policy. The increase in LBT mainly was due to drop in gross profit margin.

B3. Current year prospects

Generally, the steel industry has improved as compared to previous years. However, the Group's business is still tough and challenging. These challengers include the clearing out of legacy inventories, high finance costs and shortage of working capital funds.

The Board continues to undertake asset and business rationalization exercise through reviewing the Group's existing business and to identify assets for disposal in order to enhance and strengthen the Group's financial performance. Some of the proposal under consideration include capital reduction to reduce the accumulated losses of the Group; venture into property development by developing its existing land; and fund raising exercise.

B4. Variance between actual profit and forecast profit

The Group has not issued any profit forecast or profit guarantee.

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B5. Income tax expense

	Current Quarter	Cumulative Period
	30-Nov-17	30-Nov-17
	RM'000	RM'000
Current tax expense	-	-
Deferred tax income	-	-
	-	-

B6. Quoted investments

	Carrying Amount	Market value as at
		30-Nov-17
	RM'000	RM'000
Quoted shares in Malaysia	20	20

B7. Loan and borrowings

The Group's loans and borrowings as at 30 November 2017 are as follows:

	Secured	Unsecured	Total
	RM'000	RM'000	RM'000
Current:			
- Bank overdraft	16,120	-	16,120
- Trade line	42,243	-	42,243
- Term loans	4,595	-	4,595
- Finance lease liabilities	264	-	264
	63,222	-	63,222
Non-current			
- Term loans	20,954	-	20,954
- Finance lease liabilities	48	-	48
	21,002	-	21,002
Total	84,224	-	84,224

The above borrowings are denominated in Ringgit Malaysia.

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Breach of loan covenant

Three (3) subsidiaries of the Group have secured term loan and trade financing facility that totalling RM50,127,556. The term loan and trade financing facility contained a debt covenant which require each subsidiary's net tangible assets to be not lower than the net tangible assets as stated in the financier's Letters of Offer dated 23 December 2016. As at reporting date, the 3 subsidiaries were still unable to meet the debt covenant condition. Consequently, the entire term loan amount of RM2,635,348 has been classified as current liability. The management is in negotiation with the financier to restructure the term loan and trade financing facility.

B8. Material litigation

The Group was not engaged in any material litigation during the current financial quarter.

B9. Proposed dividend

The Board does not recommend any dividend for the current quarter ended 30 November 2017.

B10. Loss per share

(a) Basic loss per ordinary share	Current Quarter	Cumulative Period
	1 September 2017 to 30 November 2017	1 June 2017 to 30 November 2017
Loss attributable to ordinary shareholders (RM'000)	(2,494)	(3,469)
Weighted average number of ordinary share ('000)	155,103	155,103
Basic loss per ordinary share (in sen)	(1.61)	(2.24)

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(b) Diluted loss per ordinary share	Current Quarter	Cumulative Period
	1 September 2017 to 30 November 2017	1 June 2017 to 30 November 2017
Profit attributable to ordinary shareholders (basic) (RM'000)	(2,494)	(3,469)
Weighted average number of ordinary shares (diluted) ('000)	155,103	155,103
Diluted loss per ordinary share (in sen)	(1.61)	(2.24)

B11. Authorization for issue

The interim financial report was authorized for issue by the Board of Directors in accordance with a resolution of the Board.