



恒宝环球

HB Global Limited

(Company Registration No.: 200608505W)

(Malaysian Foreign Company Registration No.: 995221-H)

QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR
THE FIRST QUARTER ENDED 31 MARCH 2014

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

Unaudited Condensed Consolidated Statement Of Comprehensive Income

| | Quarter Ended | Preceding Year Corresponding Quarter | Quarter Ended | Preceding Year Corresponding Quarter | Year to Date Ended | Year to Date Ended | Year to Date Ended | Year to Date Ended |
|--|---------------|--------------------------------------|---------------|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 March 2014 | 31 March 2013 | 31 March 2014 | 31 March 2013 | 31 March 2014 | 31 March 2013 | 31 March 2014 | 31 March 2013 |
| | RMB'000 | RMB'000 | RM'000 | RM'000 | RMB'000 | RMB'000 | RM'000 | RM'000 |
| Revenue | 64,666 | 160,355 | 34,242 | 79,793 | 64,666 | 160,355 | 34,242 | 79,793 |
| Cost of sales | (63,477) | (120,509) | (33,612) | (59,965) | (63,477) | (120,509) | (33,612) | (59,965) |
| Gross Profit | 1,189 | 39,846 | 630 | 19,828 | 1,189 | 39,846 | 630 | 19,828 |
| Other operating income | 2,586 | 812 | 1,370 | 404 | 2,586 | 812 | 1,370 | 404 |
| Selling and distribution expenses | (425) | (515) | (225) | (256) | (425) | (515) | (225) | (256) |
| General and administrative expenses | (5,189) | (4,614) | (2,748) | (2,296) | (5,189) | (4,614) | (2,748) | (2,296) |
| Other operating expenses | (275) | (2,994) | (146) | (1,490) | (275) | (2,994) | (146) | (1,490) |
| Operating profits | (2,114) | 32,535 | (1,119) | 16,190 | (2,114) | 32,535 | (1,119) | 16,190 |
| Finance costs | - | - | - | - | - | - | - | - |
| Profit Before Taxation | (2,114) | 32,535 | (1,119) | 16,190 | (2,114) | 32,535 | (1,119) | 16,190 |
| Taxation | (531) | (9,013) | (281) | (4,485) | (531) | (9,013) | (281) | (4,485) |
| Profit After Taxation | (2,645) | 23,522 | (1,400) | 11,705 | (2,645) | 23,522 | (1,400) | 11,705 |
| Other comprehensive income for the period (net of tax) | - | - | - | - | - | - | - | - |
| Total comprehensive income after tax | (2,645) | 23,522 | (1,400) | 11,705 | (2,645) | 23,522 | (1,400) | 11,705 |



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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

Unaudited Condensed Consolidated Statement Of Comprehensive Income (continue)

| | Quarter Ended | Preceding Year Corresponding Quarter | Quarter Ended | Preceding Year Corresponding Quarter | Year to Date Ended | Year to Date Ended | Year to Date Ended | Year to Date Ended |
|--|---------------|--------------------------------------|---------------|--------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 31 March 2014 | 31 March 2013 | 31 March 2014 | 31 March 2013 | 31 March 2014 | 31 March 2013 | 31 March 2014 | 31 March 2013 |
| | RMB'000 | RMB'000 | RM'000 | RM'000 | RMB'000 | RMB'000 | RM'000 | RM'000 |
| (Loss)/Profit attributable to:- | | | | | | | | |
| - Equity holders of HB | (2,043) | 23,522 | (1,082) | 11,705 | (2,645) | 23,522 | (1,082) | 11,705 |
| -Non-controlling interest | (601) | - | (318) | - | 601 | - | (318) | - |
| Total comprehensive income attributable to:- | | | | | | | | |
| - Equity holders of HB | (2,043) | 23,522 | (1,082) | 11,705 | (2,043) | 23,522 | (1,082) | 11,705 |
| -Non-controlling interest | (601) | - | (318) | - | (601) | - | (318) | - |
| Earning Per Share * | | | | | | | | |
| - Basic (RMB cents/ sen) | (0.44) | 5.03 | (0.23) | 2.50 | (0.44) | 5.03 | (0.23) | 2.50 |
| - Diluted (RMB cents/ sen) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Note:

The financial statements are presented in Renminbi (“RMB”) and translated into Ringgit Malaysia (“RM”) for information purposes and reference at the exchange rate of RMB1: RM0.5295 at 31 March 2014 and : RM0.4976 at 31 March 2013 with comparatives are shown for illustration purpose. This translation should not be construed as a representation that RMB amounts actually represented have been or could be converted in RM at this or any other rate.



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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

Condensed Consolidated Statements of Financial Positions

| | Unaudited As at 31 March 2014 | Unaudited As at 31 Dec 2013 Restated | Unaudited As at 31 March 2014 | Unaudited As at 31 Dec 2013 Restated |
|---|-------------------------------------|---|-------------------------------------|---|
| | RMB'000 | RMB'000 | RM'000 | RM'000 |
| Non-Current Assets | | | | |
| Property, plant and equipment | 325,744 | 331,247 | 172,486 | 176,638 |
| Construction in progress | 74,145 | 66,456 | 39,261 | 35,839 |
| Biological assets | 5,518 | 2,424 | 2,922 | 1,307 |
| Intangible assets | 126,423 | 126,758 | 66,943 | 68,359 |
| | 531,830 | 526,885 | 281,612 | 284,144 |
| Current Assets | | | | |
| Inventories | 16,745 | 14,921 | 8,866 | 8,047 |
| Trade receivables | 29,043 | 28,687 | 15,379 | 15,471 |
| Other receivables | 6,634 | 1,627 | 3,513 | 877 |
| Prepayment for land use right | 159,429 | 159,429 | 84,420 | 85,979 |
| Cash and bank balance | 90,692 | 102,309 | 48,023 | 55,174 |
| | 302,543 | 306,974 | 160,201 | 165,548 |
| TOTAL ASSETS | 834,373 | 829,406 | 441,813 | 449,691 |
| Capital and Reserves | | | | |
| Share capital | 146,161 | 146,161 | 77,394 | 78,823 |
| Reserves | 87,832 | 87,832 | 46,508 | 47,367 |
| Retained earnings | 538,853 | 540,896 | 285,331 | 291,700 |
| Non-Controlling Interest | (7,530) | (6,929) | (3,987) | (3,737) |
| Total Equity | 765,316 | 767,960 | 405,246 | 414,153 |
| Non-Current Liabilities | | | | |
| Loan from shareholders | 15,826 | 14,460 | 8,380 | 7,798 |
| Current Liabilities | | | | |
| Trade payables | 6,340 | 10,992 | 3,358 | 5,928 |
| Other payables | 18,915 | 13,326 | 10,015 | 7,187 |
| Income tax liabilities | 2,665 | 2,032 | 1,411 | 1,096 |
| Amount due to a shareholder | 2,892 | 2,997 | 1,531 | 1,616 |
| Amount due to director | 22,420 | 22,092 | 11,872 | 11,914 |
| | 53,231 | 51,439 | 28,187 | 27,741 |
| Total Liabilities | 69,057 | 65,899 | 36,567 | 35,539 |
| TOTAL EQUITY AND LIABILITIES | 834,373 | 844,885 | 441,813 | 449,697 |
| Net asset per share attributable to equity holders of the Company (RMB / RM) ⁽ⁱ⁾ | 1.63 | 1.66 | 0.87 | 0.88 |

The Company unable to submit its Audited Financial Statements for the year ended 31 December 2013 on due date and had made announcement on 6 May 2014 for the delay.

Note:

- (1) The net assets per share attributable to equity holders of the Company is computed based on the net assets as at 31 March 2014 and 31 December 2013 divided by the number of ordinary shares of 468,000,000.
- (2) The financial statements are presented in Renminbi ("RMB") and translated into Ringgit Malaysia ("RM") for information purposes and reference at the exchange rate of RMB1: RM0.5295 at 31 March 2014 and : RM0.53929 at 31 December 2013 with comparatives are shown for illustration purpose. This translation should not be construed as a representation that RMB amounts actually represented have been or could be converted in RM at this or any other rate.



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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

Unaudited Condensed Consolidated Statements Of Changes In Equity

| 3 months ended 31 March 2014 | Share capital | Statutory reserves | Fair value adjustments reserves | Retained earnings | Non- controlling interest | Total equity |
|---|--------------------------|-------------------------------|--|------------------------------|--|-------------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2014 | 146,161 | 79,595 | 8,237 | 540,896 | (6,929) | 767,960 |
| Total comprehensive income for the period | - | - | - | (2,043) | - | (2,043) |
| Transfer to minority interest | - | - | - | - | (601) | (601) |
| At 31 March 2014 | <u>146,161</u> | <u>79,595</u> | <u>8,237</u> | <u>538,853</u> | <u>(7,530)</u> | <u>765,316</u> |

| 3 months ended 31 March 2014 | Share capital | Statutory reserves | Fair value adjustments reserves | Retained earnings | Minority interest | Total equity |
|---|--------------------------|-------------------------------|--|------------------------------|------------------------------|-------------------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2014 | 77,392 | 42,147 | 4,362 | 286,413 | (3,669) | 406,645 |
| Total comprehensive income for the period | - | - | - | (1,082) | - | (1,082) |
| Transfer to minority interest | - | - | - | - | (318) | (318) |
| At 31 March 2014 | <u>77,392</u> | <u>42,147</u> | <u>4,362</u> | <u>285,331</u> | <u>(3,987)</u> | <u>405,246</u> |

Note:

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

Unaudited Condensed Consolidated Statements Of Changes In Equity (continue)

| 3 months ended 31 March 2013 | Share capital | Statutory reserves | Fair value adjustments reserves | Retained earnings | Total equity |
|---|------------------|-----------------------|---------------------------------------|----------------------|-----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2013 | 146,161 | 76,090 | 8,237 | 608,313 | 838,801 |
| Total comprehensive income for the period | - | - | - | 50,201 | 50,201 |
| Transfer to reserves | - | 5,128 | - | (5,128) | - |
| At 31 March 2013 | <u>146,161</u> | <u>81,218</u> | <u>8,237</u> | <u>653,386</u> | <u>889,002</u> |

| 3 months ended 31 March 2013 | Share capital | Statutory reserves | Fair value adjustments reserves | Retained earnings | Total equity |
|---|------------------|-----------------------|---------------------------------------|----------------------|-----------------|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 January 2013 | 71,020 | 36,972 | 4,002 | 295,579 | 407,573 |
| Total comprehensive income for the period | - | - | - | 24,393 | 24,393 |
| Transfer to reserves | - | 2,491 | - | (2,491) | - |
| At 31 March 2013 | <u>71,020</u> | <u>39,463</u> | <u>4,002</u> | <u>317,481</u> | <u>431,966</u> |

The Company was unable to submit its Audited Financial Statements for the year ended 31 December 2013 by the due date and had made announcement on 6 May 2014 to explain for the inevitable delay.

Note:

- (1) The financial statements are presented in Renminbi ("RMB") and translated into Ringgit Malaysia ("RM") for information purposes and reference at the exchange rate of RMB1: RM0.5295 at 31 March 2014 and : RM0.4976 at 31 March 2013 with comparatives is shown for illustration purpose. This translation should not be construed as a representation that RMB amounts actually represented have been or could be converted in RM at this or any other rate.



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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

Unaudited Condensed Consolidated Statements Of Cash Flow

| | As at 31 March 2014 RMB'000 | As at 31 March 2013 RMB'000 | As at 31 March 2014 RMB'000 | As at 31 March 2013 RMB'000 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| (Loss)/Profit before income tax | (2,114) | 32,535 | (1,119) | 16,190 |
| Adjustments for: | | | | |
| Depreciation | 3,731 | 3,166 | 1,976 | 1,575 |
| Amortisation | 335 | 750 | 178 | 373 |
| Fair value adjustment | 4,453 | 2,994 | 2,358 | 1,490 |
| Interest income | - | (254) | - | (126) |
| OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES | 6,406 | 39,191 | 3,393 | 19,502 |
| In inventories | (1,824) | (18,542) | (966) | (9,226) |
| In trade and other receivables | (5,362) | 28,909 | (2,840) | 14,385 |
| In trade and other payables | 937 | (3,369) | 496 | (1,676) |
| Cash from operations | (6,249) | 46,189 | (3,308) | 22,985 |
| Income tax paid | 102 | (3,492) | 54 | (1,738) |
| Interest received | - | 254 | - | 126 |
| Net cash generated from operating activities | 259 | 42,951 | 137 | 21,373 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Addition of property, plant and equipment | (1,956) | - | (1,036) | - |
| Purchase of biological asset | (3,819) | (2,884) | (2,022) | (1,435) |
| Payment of construction in progress | (7,689) | - | (4,071) | - |
| Net cash used in investing activities | (13,464) | (2,884) | (7,129) | (1,435) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Acquisition of subsidiary | - | 200 | - | 99 |
| Advance from director | 1,512 | - | 800 | - |
| Borrow from shareholder | 76 | - | 41 | - |
| Net cash generated from financing activities | 1,588 | 200 | 841 | 99 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | (11,617) | 40,267 | (6,151) | 20,037 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD | 102,309 | 252,642 | 54,174 | 125,715 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD | 90,692 | 292,909 | 48,023 | 145,752 |

The Company was unable to submit its Audited Financial Statements for the year ended 31 December 2013 by the due date and had made announcement on 6 May 2014 to explain for the inevitable delay.

Note:

- (1) The financial statements are presented in Renminbi ("RMB") and translated into Ringgit Malaysia ("RM") for information purposes and reference at the exchange rate of RMB1: RM0.5295 at 31 March 2014 and : RM0.4976 at 31 March 2013 with comparatives are shown for illustration purpose. This translation should not be construed as a representation that RMB amounts actually represented have been or could be converted in RM at this or any other rate.



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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

A. SELECTED EXPLANATORY NOTES TO THE UNAUDITED FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2014

1. Basis of preparation

a) Basis of accounting

The financial statements are unaudited and have been prepared in accordance with the International Accounting Standards (“IAS”), IAS 34 Interim Financial Reporting and paragraph 9.22 and Part A of Appendix 9B of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, and should be read in conjunction with the Unaudited Financial Statements for the year ended 31 December 2013 and the accompanying explanatory notes attached to this unaudited financial report.

b) Changes in accounting policies

There are no changes in accounting policies for the quarter ended 31 March 2014.

c) Basis of consolidation

The financial statements of the Group include the financial statements of the Company and its subsidiary made up to the end of the financial year.

The Group was formed as a result of the restructuring exercise undertaken on 25 September 2009 for the purpose of the Company’s listing on the main market of the Bursa Malaysia Securities Berhad. The acquisition of 100% equity in the subsidiary, namely Rizhao Hengbao Foodstuffs Co., Ltd pursuant to the restructuring exercise under common control has been accounted for using the pooling-of-interest method. Under the pooling-of-interest method, the consolidated financial statements of the Group have been presented as if the Group structure immediately after the restructuring has been in existence since the earliest financial year presented. The assets and liabilities were brought into the consolidated statement of financial position at their existing carrying amounts. The pooling-of-interest method will continue to be used for the entities in existence up to the Group’s reorganization exercise.

All inter-company balances and significant inter-company transactions and resulting unrealized profits and losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated statement of comprehensive income from the effective date in which control is transferred to the Group or in which control ceases, respectively.

Where accounting policies of a subsidiary do not confirm with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

2. Audit report of the Group’s preceding annual financial statements

The predecessor auditor had issued a disclaimer opinion on the Group’s audited consolidated financial statements for the financial year ended 31 December 2012 on the scope of cash & bank balances, trade receivables & payables balances. The Group was classified under PN17 category by the listing authority (Bursa) and was tasked to conduct a special audit for the items that were specified in the disclaimer opinion. The result of the special audit is disclosed in Note 9 and can be referred to the announcements posted on 21 October 2013 and 24 February 2014 respectively which revealed no adverse findings contrary to the disclaimer opinion by the predecessor auditor. The preparation of the First quarter 2014 results was based on opening figure before adjusting for the result of the special audit but with the fair value adjustments on the biological assets as prior year adjustment. The proposed adjustments of the special audit will be evaluated by the incoming auditor and if deemed necessary, will be adjusted accordingly in the period affected.

3. Seasonality or cyclicity of operation

The business of the Group was not affected by any significant seasonal and cyclical factors for the current quarter and financial year-to-date other than the Bird Flu which has a significant impact to our Duck Farming segment and the holiday effect on the operation for Chinese New Year festival.



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4. Unusual items

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

5. Changes in estimates

There were no material changes in estimates for the current quarter and financial year-to-date.

6. Changes in share capital and debts

There were no issuance, cancellations, repurchase, resale and repayment of debt and equity securities, share buy backs, share cancellation, shares held as treasury share and resale of treasure shares for the current financial year to date.

7. Dividends

In view of the current business climate, no dividend was declared or paid by the Group in the current quarter under review.

8. Segment information

| | Financial Year Ended 31 March 2014 | | | | |
|---------------------------------------|---|------------------------------|-------------------------|---------------|----------------|
| | Ready-to- serve Food | Frozen Vegetables | Duck Farming | Others | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 51,360 | 7,078 | 1,822 | 4,406 | 64,666 |
| Segment results | 5,767 | 629 | (5,932) | 725 | 1,189 |
| Other income | | | | | 2,587 |
| Unallocated costs | | | | | (5,889) |
| Finance expenses | | | | | - |
| (Loss) before income tax | | | | | (2,113) |
| Income tax expense | | | | | (531) |
| (Loss) for the period | | | | | (2,644) |
| Other segment information: | | | | | |
| Depreciation and amortisation | | | | | 4,066 |
| Capital expenditures | | | | | 5,775 |

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QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2014

8. Segment information (continue)

| <u>Financial Period Ended 31 March 2014</u> | | | | | |
|---|--------------------------------------|------------------------------------|-------------------------------|-------------------------|------------------------|
| | <u>Ready-to-serve Food</u> RM'000 | <u>Frozen Vegetables</u> RM'000 | <u>Duck Farming</u> RM'000 | <u>Others</u> RM'000 | <u>Total</u> RM'000 |
| Revenue | 27,195 | 3,748 | 965 | 2,333 | 34,241 |
| Segment results | 3,054 | 333 | (3,141) | 384 | 630 |
| Other income | | | | | 1,370 |
| Unallocated costs | | | | | (3,118) |
| Finance expenses | | | | | |
| Loss before income tax | | | | | (1,119) |
| Income tax expense | | | | | (281) |
| Loss for the period | | | | | (1,400) |
| Other segment information: | | | | | |
| Depreciation and amortisation | | | | | 2,153 |
| Capital expenditures | | | | | 3,058 |

Note:

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| <u>Financial Year Ended 31 March 2013</u> | | | | | |
|---|---------------------------------------|-------------------------------------|--------------------------------|--------------------------|-------------------------|
| | <u>Ready-to-serve Food</u> RMB'000 | <u>Frozen Vegetables</u> RMB'000 | <u>Duck Farming</u> RMB'000 | <u>Others</u> RMB'000 | <u>Total</u> RMB'000 |
| Revenue | 141,913 | 12,322 | 5,908 | 212 | 160,355 |
| Segment results | 43,924 | 3,978 | (8,124) | 68 | 39,846 |
| Other income | | | | | 812 |
| Unallocated costs | | | | | (8,123) |
| Finance expenses | | | | | - |
| Profit before income tax | | | | | 32,535 |
| Income tax expense | | | | | (9,013) |
| Profit for the period | | | | | 23,522 |
| Other segment information: | | | | | |
| Depreciation and amortisation | | | | | 3,916 |
| Capital expenditures | | | | | - |



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8. Segment information (continue)

| Financial Year Ended 31 March 2013 | | | | | |
|---|---------------------------------|------------------------------|-------------------------|---------------|---------------|
| | <u>Ready-to- serve Food</u> | <u>Frozen Vegetables</u> | <u>Duck Farming</u> | <u>Others</u> | <u>Total</u> |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Revenue | 70,617 | 6,131 | 2,940 | 105 | 79,793 |
| Segment results | 21,857 | 1,979 | (4,042) | 34 | 19,828 |
| Other income | | | | | 404 |
| Unallocated costs | | | | | (4,042) |
| Finance expenses | | | | | - |
| Profit before income tax | | | | | 16,190 |
| Income tax expense | | | | | (4,485) |
| Profit for the period | | | | | 11,705 |
| Other segment information: | | | | | |
| Depreciation and amortisation | | | | | 1,949 |
| Capital expenditures | | | | | - |

Note:

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9. Special Audit Matters

Following the request from Bursa, the Company had engaged a special auditor, BDO, to carry out the special audits and the results of the special audits were not reflected in the results of current quarter and financial year-to-date.

On 16 October 2013, the Board of Directors received the final report from BDO with the following observations and significant findings highlighted as follows:

- 1) BDO was able to reconcile the cash balance, trade receivables and trade payables contrary to Paul Wan & Co ("PW") disclaimer opinion.
- 2) In addition to the above items under review, the Board had requested BDO to review the cost of sales and revenue recognition and property, plant and equipment ("PPE"). In this section, BDO proposed a total impairment of RMB 67.6 million.
- 3) Upon adjusting all the proposed adjustments by BDO, the Company showed a loss of RMB30.1 million for FY2012. The details of adjustment were as follows:

| | |
|--|----------|
| | RMB000 |
| Profit after tax as per audited financial statements by PW | 28,936 |
| Provision for impairment of PPE | (67,622) |
| Over provision for amortisation of land use rights | 3,761 |
| Upward adjustment for fair value of biological assets | 197 |
| Under provision of general and administrative expenses | (971) |
| Over provision of income tax | 5,624 |



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Loss after tax for the year after the adjustments (30,075)

The provision for impairment of PPE was a result of differences in the market value and the book value recorded in our books.

The above proposed adjustments will be evaluated by the incoming auditor and if deemed necessary, will be reflected in the proper period accordingly.

BDO also highlighted that they were unable to carry out the stock count for inventory balance as at 30 June 2013. The carrying amounts of the frozen food items at the old warehouse were approximately RMB 81 million representing 79% of the total inventories as at 30 June 2013. This was because the frozen food items were not properly arranged as well as the entrances to the old warehouse were not easily accessible; alternatively, BDO had checked the goods stock in notes, suppliers invoices, finished goods received notes, monthly production reports, goods stock out notes and sales invoices to determine the reasonableness of inventories balance as at 31 December 2012 with no exception noted.

On 26 November 2013, at the request of Bursa, the Board again engaged BDO to carry out physical stock take for its subsidiary in China as at 30 November 2013. It was noted in BDO report that there was no adverse findings from the physical stock take carried out on 30 November 2013 and BDO was also able to reconcile the inventory balance to 31 December 2012 from their roll back procedures. BDO also recommended some good practices for certain areas requiring improvements which the management will adopt in due time.

With the 2 rounds of special audits being carried out by BDO, the results had shed positives in respect of the Group's figures and records contrary to the disclaimer opinion made by the predecessor auditor. The management remained positive on the present business model, which had served well in the past and with further facilities to be built to support the Duck Farming segment, they should complement the entire food chain process from downstream to Ready-to-Serve Food segment.

10. Changes in the composition of the Group

The Company had incorporated three China subsidiaries under Rizhao Hengbao Foodstuffs with an amount of RMB1,800,000 representing 90% of paid up capital respectively for the following companies:

- a) On 25 February 2013 - Juxian Hengbao Farming Co. Ltd (Company No. 371122200011483-1)
- b) On 10 April 2013 - Juxian Houz Food Co. Ltd. (Company No. 371122200012038-1)
- c) On 27 April 2013 - Wan Hui Food Co. Ltd. (Company No. 371122200012394-1)

11. Contingent liability or assets

There were no material contingent liabilities or assets which may have material effect on the financial position of the Group.

12. Non-current assets

The Group acquired additional non-current assets of total RMB13.5 million, consist of property, plant and equipment, construction in progress facilities and biological assets.



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13. Capital commitment

Save as disclosed below, the Group is not aware of any material commitments, which upon becoming enforceable may have a material effect on the financial position of our Group:-

| | RMB'000 | RM'000 |
|---|---------|--------|
| Construction of meat duck farms | 75,000 | 40,447 |
| Installation of cold storage for poultry processing plant | 18,000 | 9,707 |
| Construction of Feedstock plant | 50,000 | 26,965 |
| Duck processing and production plant | 7,000 | 3,775 |
| Power station, compressor and cabling | 15,000 | 8,089 |
| Duck meat processing facilities | 6,000 | 3,236 |
| | | |

The management has identified various sources of funds available to meet the above capital commitments.

14. Significant related party transactions

Key management personnel compensation is analysed as follows:

| | Individual Quarter | | Cumulative Quarter | |
|---|--------------------|--------|--------------------|--------|
| | RMB'000 | RM'000 | RMB'000 | RM'000 |
| Salaries and other short-term employee benefits | 1,755 | 947 | 2,505 | 1,351 |
| Post employment benefits | - | - | - | - |
| | | | | |

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B. INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD UNDER LISTING REQUIREMENTS

1. Review of the performance of the Group

Review of Group Comprehensive Income

Our revenue decreased by RMB95.7 million or approximately 59.7% from RMB160.4 million in financial period ended 31 March 2013 ("FPE2013") to RMB64.7 million in financial period ended 31 March 2014 ("FPE2014"). The decrease was mainly due to decrease in sales of ready-to-serve ("RTS") products and frozen vegetables. The decrease in sales of RTS products was mainly attributable to the continuous bird flu in China in FY2013 which resulted substantial drop in the demand for our RTS Food. The depreciation of Japanese Yen against RMB of approximately 27% reduced the demand of our RTS Food directly and indirectly from Japan market. The decrease was partially offset by the contribution of revenue from our duck farming business including the sales of duck eggs and ducklings of approximately RMB1.8 million.

Gross Profit ("GP") margin decreased from 24.8% for FPE2013 to 1.8% for FPE2014. This was mainly attributable to the gross loss for duck farming products as a result of absorbing substantial fixed costs including labour costs, feeding cost, depreciation and amortisation. Gross profit margin for RTS Foods reduced from 30.9% for FPE2013 to 11.2% for FPE2014 was mainly due to the lower demand from customers and high level of fixed costs absorbed during FPE2014. Other operating income increased by RMB1.8 million from RMB0.8 million in FPE2013 to RMB2.6 million in FPE2014 which was mainly attributable to the government grants of RMB2.5 million.

Selling and distribution expenses decreased marginally by RMB0.1 million in FPE2014 as a result of lower export of our products to overseas market. General and administration expenses increased by RMB0.6 million in FPE2014 was mainly due to increase in depreciation charges and amortization of land use right. Operating expenses decreased by RMB2.7 million from RMB3.0 million in FPE2013 to RMB0.3 million in FPE2014 was mainly due to the fair value adjustment on our biological assets to in line with the valuation method in FPE2013. Net loss before taxation of RMB2.1 million in FPE2014 as compare to Net profit before taxation of RMB32.5 million mainly due to the high fixed costs of processing plant and duck farming business to include the high depreciation and amortisation of fixed assets.

Review of Balance Sheet

There were no major additions to property, plant and equipment for the current quarter. Biological assets increased by RMB3.1 million from RMB2.4 million in FPE2013 to RMB5.5 million in FPE2014 was mainly due to the growing cost of parent ducks acquired in FYE2013. The fair value adjustment of biological assets in FYE2013 of RMB15.5 million has reduced the carrying value of biological assets from RMB17.9 million to RMB2.4 million in FYE2013.

Inventories were kept at a minimum stock level, leading to a marginal increase of RM1.8 million. Trade receivables increased marginally by RMB0.3 million from RMB28.7 million in FPE2013 to RMB29.0 million in FPE2014 due to improved demand of our products following the Chinese New Year festival season. Trade payables reduced from RMB11.0 million in FPE2013 to RMB6.3 million in FPE2014 was mainly due to the lower order from our customers, leading to reduced purchases in the current quarter. Other receivables increased by RMB6.0 million mainly due to advance payment for capital expenditure.

Review of Cash Flow Statement

Net cash generated from operating activities decreased by RMB42.7 million from RMB43.0 million for FPE2013 compared to net cash generated from operating activities of RMB0.3 million in FPE2014. The reduction was mainly due to the sharp decrease in revenue and the gross losses incurred in the duck farming division in the current quarter.



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Net cash used in investing activities increased by RMB10.6 million from RMB2.9 million in FPE2013 to RMB13.5 million in FPE2014. This was mainly due to the continuous investment in duck farming division until full fledged facilities.

2. Variation of results against immediate preceding quarter

| | Current Quarter 31 Mar 2014 | | Preceding Quarter 31 Dec 2013 | |
|------------------------|--------------------------------|--------|----------------------------------|---------|
| | RMB'000 | RM'000 | RMB'000 | RM'000 |
| Revenue | 64,666 | 34,874 | 103,759 | 55,956 |
| (Loss) Before Taxation | (2,113) | 1,239 | (13,552) | (7,308) |
| (Loss) After Taxation | (2,644) | 958 | (13,552) | (7,308) |

The Group recorded revenue of RMB64.7 million in the current quarter, reduced by approximately RMB39.0 million (37.6%) from RMB103.8 million in the immediate preceding quarter due to the Chinese New Year season effect and the lower demand for our products from overseas market.

The Loss before taxation and after taxation decrease is mainly due to the increase of other operating income. The other operating income of RMB2.6 million in the current quarter is mainly due to the government grants of RMB1.0 million for the heat pump used for underground water, RMB1.5 million for animal farming activities and.

3. Prospects for FYE 2014

Barring any unforeseen circumstances, apart from the H7N9 bird flu which is beyond anyone's control, the management expects the Group to be in better position once the additional facilities are ready to support the Duck Farming segment as they will provide avenues for the Group to manage their costs in a more effective manner and also able to support the Ready-to-Serve Food segment and allow the Group to enter into the commercial meat duck market. The slaughter house which was recently completed in May 2014 will be able to support any spike in demand when arises. Also with the anticipation of completion of few more meat duck farms in the second half of 2014 to meet the commercial meat duck demand, the usage of slaughter house is expected be optimised.

The Group has taken some measurement to mitigate the risk of bird flu influenza which will minimize the impact the Group's performance in the futures.

4. Profit forecast

The Group does not have any profit forecast or guarantee in the public documents.



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5. Income tax expenses

| | Individual Quarter | | Cumulative Quarter | |
|---------------------|--------------------|--------|--------------------|--------|
| | RMB'000 | RM'000 | RMB'000 | RM'000 |
| Income tax expenses | 531 | 281 | 531 | 281 |

PRC Tax

The PRC income tax is computed according to the relevant laws and regulations in the PRC. The applicable income tax rate is 25% for current quarter and financial year-to-date.

Singapore tax

No provision for Singapore income tax was made as the dividends receivable by the Company from its subsidiary, if any, will not be taxable under the applicable law.

The effective tax rate of our Group for the current quarter and financial year-to-date was approximately (25.1%) as compared to the applicable tax rate of 25.0% due to permanent difference in the tax treatment of expenses that are not deductible under China tax.

6. Sales of unquoted investment / properties

There was no sale of unquoted investments / properties in the current financial quarter and financial year-to-date.

7. Purchase or disposal of quoted securities

There was no purchase or disposal of quoted securities for the current financial quarter and financial year-to-date.

8. Status of utilization of proceeds

The gross proceeds of RM44,304,00 from the Public Issue had been fully utilized. During the period under review there is no issue of new shares.

9. Group's borrowings and debt securities

The Group's borrowings and debt securities as of 31 Mar 2014 were as follows:

| | RMB'000 | RM'000 |
|--------------------|---------|--------|
| Loans – unsecured* | 15,826 | 8,380 |

Loans – unsecured*

On 25 September 2009, the subsidiary company entered into a loan agreement with Shen Hengbao, Meng Xiangzhen, Wu Fang, Yao Zhifang and Shi Geli (collectively referred to as the “Ultimate-shareholders”) amounting to RMB21.80 million as lenders. The loan is interest free. The tenure of the loan is 10 years and will be automatically renewed for another 10 years unless the Directors decide that the loan is no longer required.

Notes:-

(a) After incorporating the fair value adjustment made on the loan from Ex-shareholders amounting to RMB15.31 million.

10. Off-balance sheet financial instrument risks

There are no financial instruments with off-balance sheet risks as at the date of this report.



恒宝环球

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11. Changes in material litigation

As at the date of this report, there has been 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.

12. Realised and Unrealised Profit/Losses Disclosure

The retained earnings as at 31 March 2014 and 31 December 2013 are analysed as below:

| | Current Financial Period | | Preceding Financial Period | |
|--|--------------------------|---------|----------------------------|---------|
| | RMB'000 | RM'000 | RMB'000 | RM'000 |
| Total Retained Earnings of the Company and its subsidiary: | | | | |
| - Realised | 538,578 | 285,185 | 540,599 | 291,540 |
| - Unrealised | 275 | 146 | 297 | 160 |
| Total Group Retained Earnings | 538,853 | 285,331 | 540,896 | 291,700 |

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13. Earning per share

Basic Earning per Share

| | Quarter Ended | Preceding Year | Quarter | Preceding Year | Year to Date | Year to Date | Year to Date | Year to Date |
|---|----------------------|-----------------------|--------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|
| | 31 Mar 2014 | Corresponding | Ended | Corresponding | Ended | Ended | Ended | Ended |
| | 31 Mar 2014 | Quarter | 31 Mar 2014 | Quarter | 31 Mar 2014 | 31 Dec 2013 | 31 Mar 2014 | 31 Dec 2013 |
| | RMB'000 | 31 Dec 2013 | RM'000 | 31 Dec 2013 | RMB'000 | RMB'000 | RM'000 | RM'000 |
| Loss attributable to - equity holders of the company | (2,043) | (13,552) | (1,082) | (7,308) | (2,043) | (13,522) | (1,082) | (7,308) |
| - Non-controlling interest | (601) | | (318) | | (601) | | (318) | |
| Weighted average number of ordinary share in issue ('000) | 468,000 | 468,000 | 468,000 | 468,000 | 468,000 | 468,000 | 468,000 | 468,000 |
| Earning Per Share - Basic (RMB cents/ sen) | (0.44) | (2.90) | (0.23) | (1.56) | (0.44) | (9.81) | (0.23) | (1.56) |

By Order of the Board

SHEN HENGBAO
Chief Executive Officer