

## **NOTES TO THE INTERIM FINANCIAL REPORT**

### **A1 Basis of preparation**

The interim financial report is unaudited and has been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134, Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 December 2016. The 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 December 2016.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation adopted in audited financial statements for the financial year ended 31 December 2016, as well as the new/revised standards mandatory for annual periods beginning on or after 1 January 2017.

The Group has also adopted all the new and revised MFRS and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 January 2017. The adoption of these standards, amendments and interpretations has not resulted in any material impact to these interim financial statements.

### **A2 Audit report**

The audit report of the Company’s preceding Annual Financial Statements was not qualified.

### **A3 Seasonal or cyclical factors**

The Group’s operations were not significantly affected by any seasonal or cyclical factors during the quarter under review.

### **A4 Unusual items**

The Group had impaired 58% of its goodwill from consumer foods division amounting to RM22.1 million during the financial year ended 31 December 2017 based on the impairment test to reflect the fair value of the business in line with the current highly competitive and uncertain environment of the consumer foods industry. If the one-off impairment loss is excluded, the Group would have booked in a net profit before tax of RM3.5 million for the year ended 31 December 2017. The remaining goodwill for consumer foods division is RM16.1 million after the impairment.

### **A5 Changes in estimates of amount reported previously with a material effect in current financial year**

There were no estimations of amount used in our previous reporting which have a material impact in the current financial year.

**OCB BERHAD**  
(Company No: 3465-H)  
(Incorporated in Malaysia)

**A6 Debt and equity securities**

There were no issuance and repayment of debts and equity securities during the current quarter and financial year under review.

**A7 Dividends Paid**

No dividend was paid during the quarter under review.

On 23 June 2017, the Company paid a first and final single-tier dividend of 1 sen per share on 102,850,000 ordinary shares in issue, totaling RM1,208,500 in respect of the financial year ended 31 December 2016.

**A8 Segmental information**

Business segments information for the financial year ended 31 December 2017:-

	<b>Building Materials RM'000</b>	<b>Bedding Products RM'000</b>	<b>Consumer Foods RM'000</b>	<b>Investments RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>Revenue</b>						
External revenue/(Loss)	76,683	56,685	138,608	4,995	(5,054)	271,917
<b>Result</b>						
Profit/(Loss) from Operations	6,989	4,445	(4,208)	(23,105)	-	(15,879)
Finance costs						(2,680)
Investing results						-
Profit before taxation						(18,559)
Taxation						(2,904)
Net profit for the period						<b>(21,463)</b>
<b>Other information</b>						
Segment assets	58,663	108,659	103,178	39,614	-	310,114
Segment liabilities	(13,215)	(31,828)	(46,565)	(160)	-	(91,768)
Capital expenditure on property, plant and equipment	453	4,144	13,939	124	-	18,660
Depreciation	1,101	2,276	4,578	4	-	7,959

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Business segments information for the financial year ended 31 December 2016:-

	<b>Building Materials RM'000</b>	<b>Bedding Products RM'000</b>	<b>Consumer Foods RM'000</b>	<b>Investments RM'000</b>	<b>Elimination RM'000</b>	<b>Consolidated RM'000</b>
<b>Revenue</b>						
External revenue/(Loss)	91,117	58,082	143,398	17,470	(17,590)	292,477
<b>Result</b>						
Profit/(Loss) from Operations	5,349	5,689	2,153	15,149	(16,153)	12,187
Finance costs						(3,357)
Investing results						-
Profit before taxation						8,830
Taxation						(3,838)
Net profit for the period						<b>4,992</b>
<b>Other information</b>						
Segment assets	70,901	114,280	104,122	52,787	-	342,090
Segment liabilities	(24,160)	(38,112)	(38,812)	(154)	-	(101,238)
Capital expenditure on property, plant and equipment	30	5,186	11,809	-	-	17,025
Depreciation	710	2,405	3,854	6	-	6,975

**A9 Revaluations**

There were no amendments in the valuation amount of revalued assets brought forward to the current financial year under review.

**A10 Material events subsequent to the end of the reporting period**

There were no materials events subsequent to the end of the financial year under review up to the date of issuance of this report.

**A11 Changes in composition of the Group**

There were no changes in the composition of the Group during the financial year under review.

**A12 Contingent liabilities or assets**

There were no third party contingent liabilities entered into by the Company during the quarter under review.

**B1 Review of performance**

For the current fourth quarter ended 31 December 2017

The Group recorded revenue of RM70.1 million and pre-tax loss of RM21.3 million in the current quarter ended 31 December 2017 as compared to revenue of RM83.2 million and a pre-tax profit of RM4.0 million reported in the preceding year corresponding quarter.

The decrease in revenue was mainly due to lower sales contribution from the building materials and consumer foods divisions, which reported a decrease in sales of 42% and 4% respectively. Building materials division has seen lower sales from both project and retail segments, whereas, consumer foods division experienced weaker demand during the quarter under review. However, bedding products reported a slight increase of 1% in sales at RM16.1 million.

The pre-tax loss reported by the Group was mainly attributable to impairment loss on goodwill which amounted to RM22.1 million. The Group had impaired 58% of its goodwill from consumer foods division during the year ended 31 December 2017 based on the impairment test to reflect the fair value of the business in line with the current highly competitive and uncertain environment of the consumer foods industry. If the one-off impairment loss is excluded, the Group would have booked in a net profit before tax of RM3.5 million for the year ended 31 December 2017.

In addition to that, consumer foods division had reported a pre-tax loss of RM0.4 million as compared to pre-tax profit of RM2.7 million in the preceding year corresponding quarter as a result of lower revenue and margin. Consumer foods division had also recognized a fire consequential loss claim of RM3.15 million during the preceding year corresponding quarter.

Building materials division reported a lower pre-tax profit of RM0.4 million for the current quarter under review as compared to RM0.9 million achieved during the preceding year corresponding quarter due to higher operating expenses.

However, bedding products division registered a higher pre-tax profit of RM1.7 million for the current quarter under review as opposed to a pre-tax profit of RM1.2 million in the preceding year corresponding quarter mainly due to better profit margin on certain products.

For the current financial year ended 31 December 2017

The Group recorded revenue of RM272.0 million and pre-tax loss of RM18.6 million in the current financial year ended 31 December 2017 as compared to revenue of RM292.5 million and pre-tax profit of RM8.8 million reported in the preceding year.

All divisions reported lower sales for the year ended 31 December 2017. Building materials division registered a decrease of 16%, while consumer foods division suffered a decrease in revenue of 3%. Bedding products division also reported lower sales of 2%.

The pre-tax loss reported by the Group was mainly attributable to impairment loss on goodwill which amounted to RM22.1 million. The Group had impaired 58% of its goodwill from consumer foods division during the year ended 31 December 2017 based on the impairment test to reflect the fair value of the business in line with the current highly competitive and uncertain environment of the consumer foods industry. If the one-off impairment loss is excluded, the Group would have booked a net profit before tax of RM3.5 million for the year ended 31 December 2017.

The building materials division posted a stronger pre-tax profit of RM6.5 million compared to RM4.0 million in the preceding year. This was mainly attributable to completion of certain high margin projects during the year under review.

However, bedding products division reported a lower pre-tax profit of RM3.5 million as compared to pre-tax profit of RM4.5 million in the preceding year as both project and retail faced increased competition from competitors. Bedding products also reported an impairment loss of fixed assets amounted to RM0.6 million from its foreign subsidiary company.

Consumer foods products division posted a pre-tax loss of RM5.5 million for the current year as compared to pre-tax profit of RM1.4 million in the preceding year due to lower margin and higher production overhead arising from new capital expenditure incurred after the fire incident in Year 2016.

In the opinion of the Board of Directors of the Company, the results of the financial year ended 31 December 2017 have not been affected by any transaction or event of a material or unusual nature other than that mentioned above.

**B2 Material changes in the quarterly results compared to the results of the immediate preceding quarter**

The Group reported a revenue of RM70.1 million and pre-tax loss of RM21.3 million in the current quarter ended 31 December 2017 as compared to revenue of RM59.2 million and a pre-tax loss of RM1.1 million reported in the immediate preceding quarter.

The higher revenue was attributable to the increase in sales of 26% and 12% registered by the consumer foods and bedding products divisions. Building materials division reported lower sales of 3% as compared to the immediate preceding quarter.

The pre-tax loss reported by the Group was mainly attributable to impairment loss on goodwill which amounted to RM22.1 million. The Group had impaired 58% of its goodwill from consumer foods division during the year ended 31 December 2017 based on the impairment test to reflect the fair value of the business in line with the current highly competitive and uncertain environment of the consumer foods industry. If the one-off impairment loss is excluded, the Group would have booked a net profit before tax of RM3.5 million for the year ended 31 December 2017.

Consumer foods division reported a lower pre-tax loss of RM0.4 million as compared to a pre-tax loss of RM2.2 million in the immediate preceding quarter.

However, both the bedding products and building materials divisions reported a higher pre-tax profit of RM1.8 million and RM0.4 million respectively for the current quarter under review as compared to RM0.8 million and RM0.3 million respectively in the immediate preceding quarter.

**B3 Future prospects**

The Board of Directors of the Company expects the performance of the Group for the financial year ending 31 December 2018 to be challenging in view of the weak domestic outlook and foreign exchange rate fluctuations. The performance of the Group will depend substantially on the market demands, fluctuation of raw materials prices, operating efficiencies and cost control measures of the three (3) divisions.

**B4 Explanation on variances of actual results compared with forecast and shortfall in profit guarantee.**

No profit forecast or profit guarantee was issued by the Company.

**B5 Taxation**

	<b>Current quarter ended 31/12/17 RM'000</b>	<b>Current financial year ended 31/12/17 RM'000</b>
Current Taxation	954	3,285
(Over)/Under Taxation	-	-
Deferred Taxation – Current	(423)	(381)
Deferred Taxation – Prior	-	-
	<b>531</b>	<b>2,904</b>

The effective tax rate on the Group's profit was higher than the statutory rate due to certain expenses disallowed by the Inland Revenue Board and there was no group relief on losses incurred within the group of companies.

**B6 Status of corporate proposal**

There was no corporate proposal announced which has not been completed as at the date of this report.

**B7 Group borrowings and debts securities**

Total group borrowings are as follows:-

	As at 31 December 2017					
	Short term		Long term		Total borrowings	
	Denominated in SGD	Denominated in RM	Denominated in SGD	Denominated in RM	Denominated in SGD	Denominated in RM
<b>Secured</b>						
Hire purchase creditors	-	520	-	298	-	818
Bank overdrafts	-	1,153	-	-	-	1,153
Banker acceptances/trust receipts	-	11,375	-	-	-	11,375
Term loans	206	7,912	2,361	18,892	2,567	26,804
<b>Total</b>	<b>206</b>	<b>20,960</b>	<b>2,361</b>	<b>19,190</b>	<b>2,567</b>	<b>40,150</b>
<b>Unsecured</b>						
Bank overdrafts	-	959	-	-	-	959
Banker acceptances/trust receipts	-	4,414	-	-	-	4,414
<b>Total</b>	<b>-</b>	<b>5,373</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,373</b>

	As at 31 December 2016					
	Short term		Long term		Total borrowings	
	Denominated in SGD	Denominated in RM	Denominated in SGD	Denominated in RM	Denominated in SGD	Denominated in RM
<b>Secured</b>						
Hire purchase creditors	-	761	-	717	-	1,478
Bank overdrafts	-	5,617	-	-	-	5,617
Banker acceptances/trust receipts	-	12,745	-	-	-	12,745
Term loans	205	3,008	2,624	10,480	2,829	13,488
<b>Total</b>	<b>205</b>	<b>22,131</b>	<b>2,624</b>	<b>11,197</b>	<b>2,829</b>	<b>33,328</b>
<b>Unsecured</b>						
Bank overdrafts	-	206	-	-	-	206
Banker acceptances/trust receipts	-	8,546	-	-	-	8,546
<b>Total</b>	<b>-</b>	<b>8,752</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,752</b>

**B8 Derivative financial instruments**

There were no outstanding derivatives as at the end of the reporting period.

**B9 Material litigation**

There was no material litigation nor pending material litigation against the Group as at the date of this report.

**B10 Dividend**

No dividend has been declared for the current period and financial year ended under review.

**B11 Earnings per share**

**(I) Basic earnings per share**

The basic earnings per share are calculated by dividing the Group's net profit for the current quarter by the weighted number of ordinary shares in issue during the said quarter.

	<b>Current year quarter</b>	<b>Preceding year corresponding quarter</b>	<b>Current year ended</b>	<b>Preceding year ended</b>
	<b>31/12/17 RM'000</b>	<b>31/12/16 RM'000</b>	<b>31/12/17 RM'000</b>	<b>31/12/16 RM'000</b>
Net (loss)/profit attributable to equity holders of the parent	(21,799)	2,093	(21,463)	4,992
Number of shares in issue	102,850	102,850	102,850	102,850
Basic (loss)/earnings per share (Sen)	(21.19)	2.04	(20.87)	4.85

**(II) Diluted earnings per share**

Not applicable.

**B12 Notes to the Statement of Comprehensive Income**

Profit/(loss) of the period/year is arrived at after charging/(crediting):-

	<b>Current year quarter 31/12/2017 RM'000</b>	<b>Current year ended 31/12/2017 RM'000</b>
Interest income	(41)	(122)
Depreciation and amortisation	2,185	8,109
Provision for and write-off of receivables	790	1,536



**B12 Notes to the Statement of Comprehensive Income (cont'd)**

	<b>Current year quarter 31/12/2017 RM'000</b>	<b>Current year ended 31/12/2017 RM'000</b>
Provision for and write-off of inventories	72	171
(Gain)/Loss on disposal of quoted investment or properties	-	-
Property, plant & equipment written-off	576	576
Provision for fire insurance compensation	-	-
Foreign exchange (gain)/loss	-	-
(Gain)/Loss on derivatives	-	-
Impairment loss on goodwill	22,075	22,075

Date: 26 February 2018  
Petaling Jaya  
Selangor Darul Ehsan