

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

NOTES TO THE QUARTERLY REPORT

A. *Selected explanatory notes pursuant to FRS 134 Interim Financial Reporting*

A1. Accounting Policies

The interim condensed financial statements are prepared in compliance with FRS 134, “Interim Financial Reporting” and Appendix B of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim condensed financial statements have been prepared based on accounting policies and methods of computation which are consistent with those adopted in the preparation of the audited financial statements for the year ended 31 December 2014.

A2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 December 2014, except for the adoption of the following new FRSs, Amendments to FRSs, and IC Interpretations that are effective for the Group from 1 January 2015:

FRSs and IC Interpretations (Including The Consequential Amendments)

Amendments to FRS 119 : Defined Benefit Plans – Employee Contributions

Amendments Improvement to FRSs 2010-2012 cycle

Amendments Improvement to FRSs 2011-2013 cycle

The above accounting standards and interpretations (including the consequential amendments) do not have any material impact on the Group’s financial statements.

The Malaysian Accounting Standards Board (“MASB”) has issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards Framework (“MFRSs”) that are to be applied by all entities other than private entities; with the exception of entities that are within the scope of MFRS 141 (Agriculture) and IC Interpretation15 (Agreements for Construction of Real Estate), including its parent, significant investor and venture (herein called “transitioning entities”).

As further announced by MASB on 28 October 2015, the transitioning entities are allowed to defer the adoption of MFRSs to annual periods beginning on or after 1 January 2018.

Accordingly, as a transitioning entity as defined above, the Group has chosen to defer the adoption of MFRSs and will only prepare its first set of MFRS financial statements for the financial year ending 31 December 2018. The Group is currently assessing the possible financial impacts that may arise from the adoption of MFRSs and the process is still ongoing.

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

A3. Audit Report

The auditors' report on the preceding year's annual financial statements was not subject to any qualification.

A4. Seasonal And Cyclical Factors

Seasonal or cyclical factors do not significantly affect the principal business operations of the Group.

A5. Unusual Items

There were no unusual items in the current quarter and financial period to date.

A6. Changes in Estimate

There were no changes in the estimate of amounts reported in current interim period of the current financial year.

A7. Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities.

A8. Dividends paid

There were no dividends paid during the quarter under review.

A9. Segmental Information

	Poultry farming and processing	Manufacturing of fertilizer, feeds and egg trays	Others	Eliminations	Group
	RM'000	RM'000	RM'000	RM'000	RM'000
External sales	1,459,805	5,191	3,436		1,468,432
Intersegment sales	684,630	487,924	-	(1,172,554)	-
Total	2,144,435	493,115	3,436	(1,172,554)	1,468,432

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

A9. Segmental Information (cont'd)

	Poultry Farming and processing	Manufacturing of fertilizer, feeds & egg trays	Others	Total
	RM'000	RM'000	RM'000	RM'000
Profit/(Loss) before tax	51,374	(1,434)	(2,686)	47,254
Profit/(Loss) after tax	43,110	(1,448)	(2,311)	39,351

A10. Valuations of Property, Plant and Equipment

The valuations of the properties of the Group which were carried out in 2011 have been brought forward from the previous annual audited financial statements without any amendment.

A11. Events After the Interim Period

There are no material events that have arisen in the interval between the end of the current quarter ended 31 December 2015 to the date of this announcement, which would substantially affect the financial results of Group for the current quarter and the financial year to date.

A12. Changes In Composition Of The Group

There were no major changes in the composition of the Group during the current financial year to-date except that a wholly-owned subsidiary of the Group, Linggi Agriculture Sdn Bhd ("LASB") had entered into a Sale of Shares Agreement with Being Sheen Sdn Bhd ("BSSB") to acquire from BSSB 251,000 ordinary shares of RM1.00 each representing 50% of the issued and paid-up share capital in Titian Potensi Sdn Bhd ("TPSB") for a total cash consideration of RM8.211 million. Following the completion of this acquisition, TPSB is now 100% owned subsidiary of LASB.

The effect of the acquisitions of the subsidiary on the financial results of the Group is as follows: -

	RM'000
Revenue	175
Expenses	(269)
	<u>(94)</u>

The effect of the acquisitions of the subsidiary on the financial position of the Group is as follows: -

	RM'000
Non-current assets	27,160
Current assets	113
Current liabilities	(4,542)
Non-current liabilities	(9,832)
	<u>12,899</u>

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

A12. Changes In Composition Of The Group (continued)

The details of net assets acquired, goodwill and cash flow arising from the acquisitions of the subsidiary are as follows:-

	RM'000
Non-current assets	27,160
Current assets	105
Current liabilities	(4,340)
Non-current liabilities	(9,932)
Total acquisition costs	<u>12,993</u>
Less : Cash and cash equivalents	(20)
Less :Investment in joint venture in prior year	(4,782)
	<u><u>8,191</u></u>

A13. Changes In Contingent Liabilities

Changes in material contingent liabilities of the Group and Company since 31 December 2014 were as follows :

	Group		Company	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	RM'000	RM'000	RM'000	RM'000
Guarantees granted by the Company to third parties for credit facilities extended to subsidiaries	Nil	Nil	464,528	478,809
Outstanding guarantees granted by the Company to third parties for credit facilities extended to subsidiaries	Nil	Nil	424,993	449,186

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

B. Selected explanatory notes pursuant to Part A of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

B1. Detailed Analysis Of The Performance Of All Operating Segments Of The Group

		Sales	Profit/(Loss) before tax
		RM'000	RM'000
Individual Quarter 31.12.15	Poultry	332,111	(17,954)
	Manufacturing	911	(933)
	Other	494	(904)
	Total	333,516	(19,791)
Cumulative Quarter 31.12.15	Poultry	1,459,805	51,374
	Manufacturing	5,191	(1,434)
	Other	3,436	(2,686)
	Total	1,468,432	47,254

The Group's turnover for the quarter ended 31 December 2015 has increased by 2.66% to RM333.516 million from RM324.871 million for the corresponding quarter ended 31 December 2014. The increase in turnover is mainly due to increase in quantities of poultry products for the current quarter.

The Group registered a pretax loss of RM19.791 million in December 2015 compared to a pretax loss of RM4.649 million in the corresponding quarter last year. The pretax loss is due to the depressed average selling prices of poultry products.

B2. Comparison With The Preceding Quarter's Results

For the quarter ended 31 December 2015, the Group recorded a pretax loss of RM19.791 million as compared to a pretax profit of RM15.694 million for the preceding quarter ended 30 September 2015. The pretax loss for the current quarter was largely dragged by weaker broiler prices compare to the preceding quarter.

B3. Commentary On Current Year Prospect

We expect to see a growing challenge as the result of increased competition intensity, volatile economic and market conditions. However, Directors will continue to closely monitor the performance of the group.

B4. Variance on forecast profit / profit guarantee

Not applicable as no profit guarantee was issued.

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

B5. Statement By Directors

The Group did not issue any profit forecast or projection in a public document in the current quarter or prior financial period.

B6. Income Tax Expense

The tax expense comprises:

	Individual Quarter		Cumulative Quarter	
	31.12.15 RM'000	31.12.14 RM'000	31.12.15 RM'000	31.12.14 RM'000
In respect of the financial period				
Malaysian income tax	(1,425)	(3,684)	(3,825)	(5,142)
Deferred tax	(4,038)	(2)	(4,078)	(2)
	<u>(5,463)</u>	<u>(3,686)</u>	<u>(7,903)</u>	<u>(5,144)</u>

B7. Status Of Corporate Proposals

There were no corporate proposals announced but not completed as at 25 February 2016.

B8. Group Borrowings

Group borrowings all of which are secured as at 31 December 2015 were as follows:

	Current RM'000	Non Current RM'000	Total RM'000
Hire purchase and finance lease liabilities	19,473	24,351	43,824
Bank borrowings	257,364	198,232	455,596
Bank overdraft	7,200	-	7,200
Total borrowings	284,037	222,583	506,620

The borrowings are all denominated in Ringgit Malaysia.

B9. Pending Material Litigation

There was no pending material litigation as at the date of this quarterly report.

B10. Dividend

No dividend has been declared for the current quarter under review.

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

B11. Earnings Per Share

	Individual Quarter		Cumulative Quarter	
	31.12.15 RM'000	31.12.14 RM'000	31.12.15 RM'000	31.12.14 RM'000
a) <i>Basic Earnings per Share</i>				
Net profit for the period	(24,871)	(9,591)	37,217	23,860
Weighted average number of ordinary shares	78,001	77,879	77,949	77,820
Basic Earnings per share (sen)	(31.88)	(12.32)	47.74	30.66
b) <i>Diluted Earnings Per Share</i>				
Net profit for the period	-	-	37,217	23,860
Weighted average number of ordinary shares	-	-	77,949	77,820
Number of shares deemed to have been issued for no consideration – ESOS	-	-	1,053	1,048
Weighted average number of ordinary shares	-	-	79,002	78,868
Diluted earnings per share (sen)	-*	-*	47.11	30.25

*There is no diluted earnings per share because it is anti-dilutive.

B12. Cash and cash equivalents at end of the financial year

	RM'000
Cash and bank balances	21,366
Fixed deposits with licensed banks	24,513
Bank Overdraft	(7,200)
	<u>38,679</u>
Less : Fixed deposits pledged	(24,486)
	<u><u>14,193</u></u>

HUAT LAI RESOURCES BERHAD
(Company No. 323273-T)

B13. Realised and unrealised profits of the Group

	31.12.15 RM'000	30.09.15 RM'000
Total retained profits		
- Realised gain	127,724	139,354
- Unrealised loss	<u>(43,241)</u>	<u>(37,380)</u>
Total retained profits	84,483	101,974
Add : Consolidation adjustment	<u>2,500</u>	<u>8,116</u>
	<u>86,983</u>	<u>110,090</u>

B14. Profit Before Tax

	Individual Quarter 31.12.15 RM'000	Cumulative Quarter 31.12.15 RM'000
Profit before tax is arrived at		
After charging / (crediting) :-		
Interest income	(242)	(1,006)
Other income	136	(801)
Interest expenses	8,087	32,463
Depreciation	14,906	60,663
Foreign exchange (gain) / loss		
- realised	1,261	670
- unrealised	906	551

Other than the above items, there were no provision for and write off of inventories, gain or loss on disposal of unquoted investment or properties, gain or loss on derivatives and exceptional items for the current quarter and financial year to date.

B15. Authorisation for Issue

The financial statement were authorized for issue by the Board of Directors on 25 February 2016.