



HANDAL RESOURCES BERHAD (816839-X)

UNAUDITED INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

NOTES TO THE QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

PART A – EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of Preparation

These condensed consolidated interim financial statements, for the period ended 30 September 2017, have been prepared in accordance with MFRS 134 *Interim Financial Reporting* and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board. For the periods up to and including the year ended 31 December 2016, the Group prepared its financial statements in accordance with Malaysia Financial Reporting Standards (“MFRS”).

The explanatory notes attached to these condensed consolidated 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 year ended 31 December 2016.

A2. Significant Accounting Policies

New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Yet Effective

At the date of authorisation of these interim financial statements, the following MFRSs, Amendments to MFRSs and Issues Committee (IC) Interpretation were issued and have been applied by the Group.

Effective for annual periods beginning on or after 1 January 2017

Amendments to MFRS 107 *Disclosure Initiative*
Amendments to MFRS 112 *Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to MFRSs Classified as “Annual Improvements to MFRSs 2012 - 2014 Cycle”
Amendments to MFRS 12 Disclosure of Interests in Other Entities

Effective for annual periods beginning on or after 1 January 2018

MFRS 9 *Financial Instruments (IFRS 9 issued in July 2014)*
MFRS 15 *Revenue from Contracts with Customers*
Clarifications to MFRS 15 *Revenue from Contracts with Customers*
Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*
Amendments to MFRS 4 *Applying MFRS 9, Financial Instruments with MFRS 4, Insurance Contracts*
Amendments to MFRS 140 *Transfers of Investment Property*



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*Amendments to MFRSs Classified as “Annual Improvements to MFRS Standards
2014 - 2016 Cycle”*

Amendments to MFRS 1	<i>First-time Adoption of Malaysian Reporting Standards</i>
Amendments to MFRS 128	<i>Investments in Associates and Joint Ventures</i>
IC Interpretation 22	<i>Foreign Currency Transactions and Advance Consideration</i>

Effective for annual periods beginning on or after 1 January 2019

MFRS 16	<i>Leases</i>
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Effective for annual periods beginning on or after a date to be determined by MASB

Amendments to MFRS 10 and MFRS 128	<i>Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures</i>
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The Group and the Company will apply the above new MFRSs, IC Interpretation and amendments to MFRSs that are applicable once they become effective.

A3. Auditors’ Report on Preceding Annual Financial Statements

The auditors’ report on the preceding audited financial statements of the Company and its subsidiaries for the financial year ended 31 December 2016 did not contain any qualification.

A4. Items of Unusual Nature

There were no items affecting the assets, liabilities, equity, net income or cash flow of the Group that are unusual because of their nature, size or incidence for the financial quarter under review.

A5. Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have had a material effect in the current financial quarter.

A6. Changes in Debt and Equity Securities

There were no issuance and repayments of debt and equity securities, share buy-backs, share cancellations, shares held as treasury shares and resale of treasury shares for the current quarter under review.

A7. Dividend Paid and Distributed

There were no dividends paid in the current period.



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A8. Segmental Information

The Group is organized into the following operating segments:-

- a) Integrated crane services contracts (“Integrated crane services”)
- b) Manufacturing and fabrication of new offshore pedestal cranes (“Fabrication of cranes”)
- c) Workover projects lifting solutions
- d) Supply, fabrication & servicing industrial equipments & tank systems
- e) Consultants in engineering project support services.

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Segmental Reporting

Period ended 30 September 2017	Investment holding	Integrated crane services	Fabrication of cranes	Workover projects lifting solutions	Supply, fabrication & servicing industrial equipments & tank systems	Consultants In Engineering project support services	Eliminations	Consolidated
	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000
Revenue								
Revenue from external parties	-	33,974	3,017	-	1,881	-		38,872
Inter-segment revenue	17,950	-	-	-	-	51	(18,001)	-
Total revenue	17,950	33,974	3,017	-	1,881	51	(18,001)	38,872
Results								
Profit from operations	17,950	16,526	134	-	418	-	(17,950)	17,078
Other operating income								817
GP Margin	100%	49%	4%	-	22%	-		
Administration and Other operation expenses								(16,753)
Depreciation & amortization								(2,057)
Finance cost								(1,343)
Loss before tax								(2,258)
Taxation								(126)
Loss after tax								(2,384)
Assets								
Segment assets	79,030	92,198	15,974	40	1,053	11,229	(68,047)	131,476
Liabilities								
Segment liabilities	303	41,658	7,218	18	379	6,600	(21,071)	35,105



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A9. Valuation of property, plant and equipment

There was no valuation of the property, plant and equipment in the current financial quarter.

A10. Capital Commitments

There are no material capital commitments as at the date of this report.

A11. Material events subsequent to the end of period reported

There were no material events subsequent to the end of the period reported.

A12. Changes in composition of the Group

There were no changes in composition of the Group for the financial quarter under review.

A13. Contingent liabilities or contingent assets

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

A14. Significant Related Party Transactions

The Group had the following transactions during the current financial quarter with a related party in which a director of the Company has substantial financial interest :-

Name of Related Parties	Nature of Transaction	Amount of Transaction (RM'000)
Excell Crane & Hydraulics Inc	Material and spare parts supply	723



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**PART B – ADDITIONAL INFORMATION AS REQUIRED BY LISTING REQUIREMENT OF BURSA
MALAYSIA SECURITIES BERHAD (PART A OF APPENDIX 9B)**

B1. Review Of Performance Of The Group - Period ended 30 September 2017

(a) Current Quarter (Q3 2017) vs Preceding Year Corresponding Quarter (Q3 2016)

	Individual Period (3rd quarter)		Variance	
	Current Quarter	Preceding Year Corresponding Quarter		
	30 September 2017	30 September 2016	RM' 000	%
	RM' 000	RM' 000	RM' 000	%
Revenue	12,634	18,972	(6,338)	-33
Gross Profits	4,472	8,561	(4,089)	-48
Loss Before Interest and Tax	(1,284)	(10,203)	8,919	-87
Loss Before Tax	(1,835)	(10,677)	8,842	-83
Loss After Tax	(1,747)	(11,081)	9,334	-84
Loss Attributable to Ordinary Equity Holders of the Parent	(1,747)	(11,046)	9,299	-84

For the current quarter, the Group posted a lower loss before tax of RM1.84 million as compared to a loss before tax of RM10.68 million registered in the preceding year corresponding quarter.

Despite a lower revenue, the 83% reduction in loss before tax for the 3rd Quarter 2017 was mainly due to impairment provision of rig asset amounting to RM11.93 million in the preceding year corresponding period as compared to no impairment provision required in the current period.



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Performance of the respective operating business segments for the 3rd Quarter 2017 as compared to the previous year corresponding quarter is analysed as follows:-

1) Integrated crane business

The revenue of this business segment has decreased from RM16.37 million to RM11.56 million due to the transitioning to the new three (3) years crane maintenance contracts. The Gross profit margin (3Q17:38% vs. 3Q16:42%) has decreased due to higher initial startup costs of the new contracts.

2) Fabrication of crane business

This business segment recorded minimal sales for the current quarter due to reduction in capex from the major oil operators.

3) Workover Project business

There was no workover project during this current quarter compared to RM1.24 million in the preceding year corresponding quarter primarily due to cut back in well maintenance campaign by the major oil operators.

4) Supply, fabrication & servicing industrial equipments & tank

The revenue of this business segment decreased from RM0.41 million to RM0.11 million due to reduced business activities. The Gross profit margin (3Q17:22% vs. 3Q16:10%) has improved due to higher operational efficiency.



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(b) Current Year to Date vs. Preceding Year Corresponding Period.

	Cumulative Period		Variance	
	Cumulative Year to Date	Preceding Year Corresponding Period ended		
	30 September 2017	30 September 2016		
	RM' 000	RM' 000	RM' 000	%
Revenue	38,872	64,358	(25,486)	-40
Gross Profits	17,078	27,272	(10,194)	-37
Loss Before Interest and Tax	(915)	(5,937)	5,022	-85
Loss Before Tax	(2,258)	(7,429)	5,171	-70
Loss After Tax	(2,384)	(9,212)	6,828	-74
Loss Attributable to Ordinary Equity Holders of the Parent	(2,383)	(9,176)	6,793	-74

The Group registered a loss before tax of RM2.26 million for the 9 months period ended September 2017 as compared to a loss before tax of RM7.43 million in the preceding year corresponding period.

Despite a lower revenue, the 70% reduction in loss before tax for the cumulative period ended 30 September 2017 was mainly due to impairment provision of rig asset amounting to RM11.93 million in the preceding year corresponding period as compared to no impairment provision required in the current cumulative period.

Performance of the respective operating business segments for financial period ended 30 September 2017 as compared to the preceding year corresponding period is analysed as follows:-

1) Integrated crane business

The revenue of this business segment decreased from RM48.45 million to RM33.97 million due to the transitioning to the new three (3) years crane maintenance contracts.
The Gross profit margin remain unchanged (YTD2017:49% vs. YTD2016:49%).

2) Fabrication of crane business

The revenue of this business segment has reduced from RM11.70 million to RM3.02 million due to reduction in capex from the major oil operators.
The Gross profit margin has decreased (YTD2017:4% vs. YTD2016:8%).



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3) Workover Project business

There was no workover project during this current cumulative period compared to RM3.26 million in the preceding year corresponding period primarily due to cut back in well maintenance campaign by the major oil operators.

4) Supply, fabrication & servicing industrial equipments & tank

The revenue of this business segment has increased from RM0.95 million to RM1.88 million. The Gross profit margin (YTD2017:22% vs. YTD2016:25%) has decreased resulting from lower profit margin jobs in the current cumulative period compared to preceding year corresponding period.

B2. Material Changes In The Quarterly Results Compared To The Results Of The Preceding Quarter

	Current Quarter	Immediate Preceding Quarter	Variance	
	30 September 2017	30 June 2017		
	RM' 000	RM' 000	RM' 000	%
Revenue	12,634	11,912	722	6
Gross Profits	4,472	5,490	(1,018)	-19
Loss Before Interest and Tax	(1,284)	(1,018)	(266)	26
Loss Before Tax	(1,835)	(1,394)	(441)	32
Loss After Tax	(1,747)	(1,296)	(451)	35
Loss Attributable to Ordinary Equity Holders of the Parent	(1,747)	(1,295)	(452)	35

For the current quarter, the Group registered a loss before tax of RM1.84 million as compared to a loss before tax of RM1.39 million in the preceding quarter as a result of lower gross profit margin due to the transitioning to the new three (3) years crane maintenance contracts.

Subsequent to the second quarter, the Group has made announcement of the successful awards of contracts following which the work activities are expected to increase in the coming quarters.



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B3. Prospects

The Group Performance is expected to be challenging for the current financial year in view of the global oil supply situation continuing to influence industry outlook.

However, with the improving oil prices, the Group expects market conditions to improve.

B4. Profit Forecast

The Group has not issued any profit forecast for the current financial period.

B5. Taxation

	Current quarter ended 30 September 2017 RM' 000	For the period ended 30 September 2017 RM' 000
Current tax	1	267
Deferred tax	(89)	(89)
	<u>(88)</u>	<u>126</u>

The Group's tax write back in the current quarter is due to the adjustment of tax provision in Handal Offshore Services Sdn Bhd as a result of the losses incurred by this subsidiary during the current quarter.

The Group incurred tax expenses despite reporting a loss for the cumulative period ended 30 September 2017, principally due to losses incurred by certain subsidiaries which cannot be offset against the cumulative taxable profit made by Handal Offshore Services Sdn Bhd.

B6. Status of Corporate Proposals and utilization of proceeds.

There was no corporate proposal announced for the current reporting quarter.

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B7. Group Borrowings and Debt Securities

The Group's borrowings, all of which are secured, are as follows:

	As at 30 September 2017 <u>RM'000</u>	As at 30 September 2016 <u>RM'000</u>
Short term borrowings- Secured		
Bank overdrafts	19,776	16,532
Bankers' acceptances	4,587	7,635
Term Loan	2,293	-
Hire Purchase liabilities	185	830
	<u>26,841</u>	<u>24,997</u>
Long term borrowings- Secured		
Term Loan	-	6,348
Hire Purchase liabilities	467	-
	<u>467</u>	<u>6,348</u>
Total Borrowings	<u>27,308</u>	<u>31,345</u>

B8. Material Litigation

There were no material litigation as at the date of issuance of this quarterly report.

B9. Earnings/ (Loss) Per Share

	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30-September-17	Corresponding Quarter Ended 30-September-16	Cumulative Year To Date 30-September-17	Corresponding Year To Date 30-September-16
	RM'000	RM'000	RM'000	RM'000
BASIC EARNINGS/ (LOSS) PER SHARE				
Loss for the period attributable to ordinary equity holders of the Company	(1,747)	(11,046)	(2,383)	(9,176)
Weighted average number of ordinary shares in issue ('000)	159,690	160,000	159,690	160,000
Basic earnings/ (loss) per share (sen)	(1.09)	(6.90)	(1.49)	(5.74)



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B10. Profit/ (Loss) before Taxation

Profit/ (Loss) before taxation is arrived at after crediting/ (charging) the following income/ (expenses):

	Current Quarter ended 30 September 2017 RM'000	Cumulative Period ended 30 September 2017 RM'000
- Interest Income	94	272
- Foreign exchange gain/(loss)	(19)	(58)
- Short Term Investment Income	80	261
- Depreciation and amortization	(690)	(2,057)

B11. Dividends

The Directors have not recommended any dividend for the current quarter ended 30 September 2017.



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B12. Trade Receivables

The analysis of the Group's trade receivables are as follows:

	As at 30 September 2017 RM'000	As at 31 December 2016 RM'000
Neither past due nor impaired	24,315	22,703
1 to 30 days past due not impaired	1,609	2,143
31 to 60 days past due not impaired	711	760
61 to 90 days past due not impaired	361	-
More than 90 days past due not impaired	2,716	3,303
	5,397	6,206
Past due and impaired	25	131
	<u>29,737</u>	<u>29,040</u>
Less: Impairment losses	(25)	(131)
	<u>29,712</u>	<u>28,910</u>

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group.

None of the Group's trade receivables that are neither past due nor impaired have been renegotiated during the year.

Receivables that are past due but not impaired

The Group has trade receivables amounting to RM5.4 million (31 December 2016: RM6.2million) that are past due at the reporting date but not impaired. These are unsecured in nature.

Subsequent to the current reporting quarter, the Group has collected RM5.6million from these outstanding trade receivables.



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B13. Realised and unrealized profits / (losses) disclosure.

The retained profits as at 30 September 2017 analysed as follows:-

	As At End of Current Quarter
	30/9/2017 RM'000
Total retained profits of the Company and the subsidiaries:-	
- Realised	24,303
- Unrealised	<u>(3,909)</u>
	20,394
Less: Consolidation adjustment	<u>(3,959)</u>
Total group retained profits as per consolidated income statements	<u><u>16,435</u></u>