



HANDAL RESOURCES BERHAD (816839-X)

UNAUDITED INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2018

NOTES TO THE QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2018

A1. Basis of Preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the provisions of the Companies Act 2016 in Malaysia.

The financial statements of the Group and of the Company are prepared under the historical cost convention unless otherwise indicated in the summary of significant accounting policies.

The accounting policies applied by the Group and the Company are consistent with those applied in the previous financial year other than the application of the amendments to MFRSs as disclosed in Note A2.

A2. Application of Amendments to MFRSs

During the financial period, the Group and the Company have applied the following amendments to MFRSs issued by the Malaysian Accounting Standards Board ("MASB") which are effective for accounting period 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

Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2014 - 2016 Cycle"

- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards

- Amendments to MFRS 128, Investments in Associates and Joint Ventures

IC Interpretation 22, Foreign Currency Transactions and Advance Consideration

The application of the Amendments has no significant impact on the Group's and on the Company's financial statements.



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A3. New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue And Take Effective and Have Been Adopted

Effective for annual periods beginning on or after 1 January 2019

MFRS 16, Leases

Amendments to MFRS 9, Prepayments Features with Negative Compensation Amendments to MFRS 128, Long Term Interests in Associate and Joint Ventures

Amendments to MFRSs Classified as "Annual Improvements to MFRS Standards 2015 - 2017 Cycle":

- Amendments to MFRS 3, Business Combinations (Previously Held Interest in a Joint Operation)
- Amendments to MFRS 11, Joint Arrangements (Previously Held Interest in a Joint Operation)
- Amendments to MFRS 12, Income Taxes (Income Taxes Consequences of Payments on Financial Instruments Classified as Equity)
- Amendments to MFRS 123, Borrowing Costs (Borrowing Costs Eligible for Capitalisation)

IC Interpretation 23, Uncertainty over Income Tax Treatments

Effective for annual periods beginning on or after 1 January 2021

MFRS 17, Insurance Contracts

Effective for annual periods beginning on or after a date to be determined by MASB

Amendments to MFRS 10 and MFRS 128 - Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

The Group and the Company will apply the above new MFRSs, IC Interpretation and amendments to MFRSs that are applicable once they become effective. Their main features are summarised below.



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A3. New MFRSs and IC Interpretation and Amendments to MFRSs That Are In Issue But Not Effective and Have Not Been Early Adopted (Cont'd)

A3.1 Effective for annual periods beginning on or after 1 January 2019

MFRS 16, Leases

MFRS 16 will supersede the existing MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and it sets out the principles for the recognition, measurement, presentation and disclosures of leases.

Under the existing MFRS 117, lessees and lessors are required to classify their leases as either finance leases or operating leases and account for those two types of leases differently. It requires a lessee to recognise assets and liabilities arising from finance leases but not from operating leases.

The new MFRS 16 introduces a single accounting model and requires a lessee to recognise assets and liabilities for the rights and obligations arising from all leases and hence eliminates the distinction between finance leases and operating leases. As a consequence, a lessee recognises right-of-use assets and lease liabilities arising from operating leases. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 *Property, Plant and Equipment* and the lease liability is accreted over time with interest expense recognised in the profit or loss.

The financial effects arising from the application of this Standard are still being assessed by the management.

A4. 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 2017 did not contain any qualification.

A5. 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.

A6. 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.



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A7. 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.

A8. Dividend Paid and Distributed

There were no dividends paid in the current period.

A9. 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) Manpower services
- e) Supply, fabrication & servicing industrial equipments & tank systems.
- f) Consultants in engineering project support services.
- g) Pipeline engineering, advanced composite material, pipeline connector, sub-sea flexible tank system and research and development for oil and gas industry.

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Period ended 30 June 2018	Investment holding	Integrated crane services	Fabrication of cranes	Workover projects lifting solutions	Manpower Services	Supply, fabrication & servicing industrial equipments & tank systems	Consultants In Engineering project support services	Research & Development in Advance Composite Material	Eliminations	Consolidated
	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000	RM' 000
Revenue										
Revenue from external parties	-	20,217	3,097	1,450		1,858	-	2,466		29,088
Inter-segment revenue	-	-	-	-	121	-	34	-	(155)	-
Total revenue	-	20,217	3,097	1,450	121	1,858	34	2,466	(155)	29,088
Results										
Profit from operations	-	8,680	556	1,223	0	368	-	1,763		12,590
Other operating income										717
GP Margin	-	43%	18%	84%	0%	20%	-	71%		
Administration & Other operation expenses										(12,196)
Depreciation & amortization										(1,400)
Finance cost										(907)
Loss before tax										(1,196)
Taxation										-
Loss after tax										(1,196)
Assets										
Segment assets	78,645	72,216	15,890	1,420	699	1,280	10,617	4,587	(58,966)	126,388
Liabilities										
Segment liabilities	2,307	23,960	5,272	471	232	1,287	2,064	1,447	(6,511)	30,529



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A10. Valuation of property, plant and equipment

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

A11. Capital Commitments

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

A12. Material events subsequent to the end of period reported

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

A13. Changes in composition of the Group

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

A14. Contingent liabilities or contingent assets

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

A15. 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 Group 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	967



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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 June 2018

(a) Current Quarter (Q2 2018) vs Preceding Year Corresponding Quarter (Q2 2017)

	Individual Period (2nd quarter)		Variance	
	Current Quarter	Preceding Year Corresponding Quarter		
	30 June 2018	30 June 2017	RM' 000	%
	RM' 000	RM' 000	RM' 000	%
Revenue	14,981	11,912	3,069	26
Gross Profits	6,621	5,490	1,131	21
Profit/(Loss) Before Interest and Tax	172	(1,018)	1,190	-117
Profit/(Loss) Before Tax	(261)	(1,394)	1,133	-81
Profit/(Loss) After Tax	(229)	(1,296)	1,067	-82
Loss Attributable to Ordinary Equity Holders of the Parent	(984)	(1,295)	311	-24

For the current quarter, the Group posted a loss before tax of RM0.26 million as compared to a loss before tax of RM1.39 million registered in the preceding year corresponding quarter.

This is mainly due to higher revenue and higher operating income for majority of business segments.



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Performance of the respective operating business segments for the 2nd Quarter 2018 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 RM10.78 million to RM9.89 million due to decrease in maintenance activities completed during the current quarter.

The Gross profit margin (2Q18:38% vs. 2Q17:49%) has decreased due to lower operational efficiency.

2) **Fabrication of crane business**

The revenue of this business segment is recognized based on the percentage (%) completion method. As per current quarter, there was RM1.14 million sales generated (2Q17:Nil).

The Gross profit margin (2Q18:20% vs. 2Q17:0%).

3) **Workover Project business**

There was a revenue of RM0.76 million in this current quarter (2Q17: Nil) due to start of the Well Maintenance Campaign by a major oil operator in the first quarter of year 2018.

4) **Supply, fabrication & servicing industrial equipments & tank**

The revenue of this business segment increased from RM1.13 million to RM1.74 million due to increased activities in this business segment.

The Gross profit margin (2Q18:18% vs. 2Q17:18%) has maintained.



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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 June 2018	30 June 2017		
	RM' 000	RM' 000	RM' 000	%
Revenue	29,088	26,238	2,850	11
Gross Profits	12,590	12,606	(16)	0
Profit/(Loss) Before Interest and Tax	(289)	369	(658)	-178
Profit/(Loss) Before Tax	(1,196)	(423)	(773)	183
Profit/(Loss) After Tax	(1,196)	(637)	(559)	88
Loss Attributable to Ordinary Equity Holders of the Parent	(1,943)	(636)	(1,307)	206

The Group recorded a pre-tax loss of RM1.20 million for the 6 months period ended June 2018 as compared to a loss before tax of RM0.43 million in the preceding year corresponding period. This is mainly due to higher administration & operating expenses and higher depreciation & amortization cost.

Performance of the respective operating business segments for financial period ended 30 June 2018 as compared to the preceding year corresponding period is analysed as follows:-

1) Integrated crane business

The revenue of this business segment decreased slightly from RM22.90 million to RM20.22 million due to lower maintenance activities completed in the current 6 months period.

The Gross profit margin has decreased (YTD2018:43% vs. YTD2017:53%) due to lower operational efficiency.

2) Fabrication of crane business

The revenue of this business segment is recognized based on the percentage (%) completion method.

The revenue of this business segment has increased from RM1.56 million to RM3.10 million due to an increase in new crane requirements for this period.

The Gross profit margin has improved (YTD2018:18% vs. YTD2017:7%).



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3) Workover Project business

There was no workover project in the preceding year corresponding period as compared to RM1.45 million during this current cumulative period primarily due to start of the well maintenance campaign by the major oil operators in the current period 2018.

The Gross profit margin has increased (YTD2018:84% vs. YTD2017:0%).

4) Supply, fabrication & servicing industrial equipments & tank

The revenue of this business segment has increased from RM1.78 million to RM1.86 million.

The Gross profit margin (YTD2018:20% vs. YTD2017:22%) has decreased due to competitive market conditions.

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

	Current Quarter	Immediate Preceding Quarter	Variance	
	30 June 2018	31 March 2018	RM' 000	%
	RM' 000	RM' 000	RM' 000	%
Revenue	14,981	14,107	874	6
Gross Profits	6,621	5,969	652	11
Profit/(Loss) Before Interest and Tax	172	(461)	633	-137
Profit/(Loss) Before Tax	(261)	(935)	674	-72
Profit/(Loss) After Tax	(229)	(967)	738	-76
Loss Attributable to Ordinary Equity Holders of the Parent	(984)	(959)	(25)	3

For the current quarter, the Group registered a loss before tax of RM0.26 million as compared to a loss before tax of RM0.94 million in the preceding quarter mainly due to higher revenue in the current quarter as compared to preceding year corresponding quarter.

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.



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B4. Profit Forecast

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

B5. Taxation

	Current quarter ended 30 June 2018 RM' 000	For the period ended 30 June 2018 RM' 000
Current tax	(32)	-
Deferred tax	-	-
	<u>(32)</u>	<u>-</u>

The Group's tax write back in the current quarter is due to the adjustment of the provision in Handal Offshore Services Sdn Bhd as a result of the losses incurred by this subsidiary during the current quarter. The group's effective tax rate for the cumulative financial period is 0%.

B6. Status of Corporate Proposals

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 June 2018 <u>RM'000</u>	As at 30 June 2017 <u>RM'000</u>
Short term borrowings- Secured		
Bank overdrafts	11,423	15,117
Bankers'acceptances/Invoice Financing (IVF)	5,477	3,013
Term Loan	-	3,794
Hire Purchase liabilities	194	113
	<u>17,094</u>	<u>22,037</u>
Long term borrowings- Secured		
Term Loan	-	-
Hire Purchase liabilities	320	578
	<u>320</u>	<u>578</u>
Total Borrowings	<u>17,414</u>	<u>22,615</u>

B8. Material Litigation

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



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B9. Earnings/ (Loss) Per Share

	Individual Period		Cumulative Quarter	
	Current Quarter Ended 30-June-18 RM'000	Corresponding Quarter Ended 30-June-17 RM'000	Cumulative Year To Date 30-June-18 RM'000	Corresponding Year To Date 30-June-17 RM'000
BASIC (LOSS)/EARNINGS PER SHARE				
Loss for the period attributable to ordinary equity holders of the company	(984)	(1,295)	(1,943)	(636)
Weighted average number of ordinary shares in issue ('000)	159,690	159,690	159,690	159,690
Basic (loss)/earnings per share (sen)	(0.62)	(0.81)	(1.22)	(0.40)

B10. Profit/ (Loss) before Taxation

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

	Current Quarter ended 30 June 2018 RM'000	Cumulative Quarter ended 30 June 2018 RM'000
- Interest Income	94	188
- Foreign exchange gain/(loss)	(98)	(178)
- Short Term Investment Income	66	115
- Depreciation and amortization	(702)	(1,400)

B11. Dividends

Dividends have not been recommended for the current quarter ended 30 June 2018.



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B12. Trade Receivables

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

	As at 30 June 2018 RM'000	As at 30 June 2017 RM'000
Neither past due nor impaired	18,093	20,687
1 to 30 days past due not impaired	1,764	1,871
31 to 60 days past due not impaired	1,659	295
61 to 90 days past due not impaired	1,351	142
More than 90 days past due not impaired	3,365	2,778
	8,139	5,086
Past due and impaired	237	-
	26,469	25,773
Less: Impairment losses	(237)	-
	26,232	25,773

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 RM8.14 million (30 June 2017: RM5.09 million) 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 RM5.58 million from these outstanding trade receivables based on the latest practical date of 6th August 2018.