



HANDAL RESOURCES BERHAD (816839-X)
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

| | Individual Quarter | | Cumulative Period | |
|---|-----------------------------|---|-----------------------------|--|
| | Current Quarter ended | Preceding Year Corresponding Quarter | Current Year To Date | Preceding Year Corresponding Period |
| | 30 September 2018 RM'000 | 30 September 2017 RM'000 | 30 September 2018 RM'000 | 30 September 2017 RM'000 |
| Revenue | 11,508 | 12,634 | 40,596 | 38,872 |
| Cost of sales | (9,458) | (8,162) | (25,956) | (21,794) |
| Gross profit | 2,050 | 4,472 | 14,640 | 17,078 |
| Other operating income | 324 | 195 | 1,041 | 817 |
| Administration and other operating expenses | (7,309) | (5,261) | (19,505) | (16,753) |
| Depreciation and amortisation cost | (696) | (690) | (2,096) | (2,057) |
| Finance costs | (411) | (551) | (1,318) | (1,343) |
| (Loss)/Profit before taxation | (6,042) | (1,835) | (7,238) | (2,258) |
| Income tax expense | 33 | 88 | 33 | (126) |
| (Loss)/Profit after tax for the period | (6,009) | (1,747) | (7,205) | (2,384) |
| Other comprehensive income | 0 | 0 | - | - |
| Total other comprehensive income | - | - | - | - |
| Total comprehensive (loss)/profit for the period | (6,009) | (1,747) | (7,205) | (2,384) |
| Profit attributable to: | | | | |
| Equity holders of the parent | (4,418) | (1,747) | (6,361) | (2,383) |
| Non-controlling Interest | (1,591) | 0 | (844) | (1) |
| Total comprehensive (loss)/profit for the period | (6,009) | (1,747) | (7,205) | (2,384) |
| Weighted average no. of ordinary shares in issue ('000) | 159,690 | 159,690 | 159,690 | 159,690 |
| (Loss)/Profit per share - Basic (sen) | (2.77) | (1.09) | (3.98) | (1.49) |

Notes:

- (i) Basic (loss)/earnings per share for the quarter and financial period is calculated based on the net (loss)/profit divided by the weighted average number of ordinary shares for the quarter and financial period respectively.
- (ii) The Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying notes attached to this quarterly financial report.

HANDAL RESOURCES BERHAD (816839-X)
(Incorporated in Malaysia)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2018

| | Unaudited As at 30 September 2018 RM'000 | Audited As at 31 December 2017 RM'000 |
|---|---|--|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 25,656 | 29,294 |
| Intangible asset | 8,680 | 8,680 |
| Goodwill arising on consolidation (Note II) | 4,334 | - |
| | 38,670 | 37,974 |
| Current Assets | | |
| Inventories | 11,067 | 11,664 |
| Work-in-progress | 2,383 | 1,782 |
| Trade receivables (Note III) | 27,276 | 49,712 |
| Amount due by customers for contract works | 8,709 | 1,704 |
| Other receivables, deposits & prepayment | 2,195 | 491 |
| Financial assets held for trading | 10,740 | 7,024 |
| Short term investment | 35 | 80 |
| Fixed deposits with licensed banks | 13,216 | 12,932 |
| Cash on hand and at bank | 3,548 | 988 |
| Tax recoverable | 52 | - |
| Asset held for sale | 10,186 | 10,186 |
| | 89,407 | 96,563 |
| Total Assets | 128,077 | 134,537 |
| EQUITY AND LIABILITIES | | |
| Equity | | |
| Share capital | 80,029 | 80,029 |
| Treasury shares | (72) | (72) |
| Reserves | 10,014 | 16,375 |
| Shareholders' Fund | 89,971 | 96,332 |
| Minority Interests | (121) | (13) |
| Total equity | 89,850 | 96,319 |
| Non-current liabilities | | |
| Hire purchase creditors | 270 | 419 |
| Long term borrowings | - | - |
| Deferred taxation | 3,849 | 3,849 |
| | 4,119 | 4,268 |
| Current Liabilities | | |
| Trade payables | 6,167 | 2,792 |
| Other payables and accruals | 4,305 | 2,937 |
| Hire purchase creditors | 197 | 188 |
| Amount due to customers for contract works | 36 | - |
| Short term borrowings | 23,371 | 26,843 |
| Amount due to a director (Note IV) | - | 366 |
| Tax payables | 32 | 824 |
| | 34,108 | 33,950 |
| Total liabilities | 38,227 | 38,218 |
| Total equity and liabilities | 128,077 | 134,537 |
| Notes: | | |
| Net Assets Per Share Attributable to ordinary equity holders of the Company | 0.56 | 0.60 |

Notes:

- (I) The Condensed Consolidated Statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying notes attached to this quarterly financial report.
- (II) Goodwill on consolidation - arise from surplus of purchase consideration from acquisition of a subsidiary over the fair value of the net assets of the said subsidiary.
- (III) Trade Receivable consist of Trade Debtors RM15.98 million (FYE17: RM21.74 million) and Accrued Revenue RM11.3 million (FYE17: RM27.97 million).
- (IV) The amount owing to a director is unsecured, interest-free and repayable on demand.



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UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

| | Attributable to equity holders of the Company | | | | | | |
|--|---|---------------|-----------------|------------------|--------------------|---------------------------|---------------|
| | Share Capital | Share Premium | Treasury Shares | Retained Profits | Shareholders' Fund | Non- controlling Interest | Total Equity |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Balance as at 1 Jan 2018 | 80,029 | - | (72) | 16,375 | 96,332 | (13) | 96,319 |
| Total comprehensive loss for the quarter | - | - | - | (6,361) | (6,361) | (108) | (6,469) |
| Balance as at 30 September 2018 | 80,029 | - | (72) | 10,014 | 89,971 | (121) | 89,850 |

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying notes attached to this quarterly financial report.

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**UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018**

| | Current Year To Date 30 September 2018 RM'000 | Preceding Year Corresponding Period 30 September 2017 RM'000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| (Loss)/Profit before taxation | (7,238) | (2,258) |
| Adjustments for Non Cash items | (1,811) | 2,678 |
| Operating profit before working capital changes | (9,049) | 420 |
| Decrease/(Increase) in inventories | 597 | (395) |
| Decrease/(Increase) in work-in-progress | (602) | (1,021) |
| Decrease/(Increase) in trade receivables | 20,733 | (2,114) |
| Decrease/(Increase) in amount due from customers for contract works | (4,302) | 2,037 |
| (Decrease)/Increase in payables | 5,299 | (1,939) |
| (Decrease)/Increase in amount due to customers for contract works | 36 | - |
| Cash generated from operations | 12,712 | (3,012) |
| Interest paid | (55) | (903) |
| Tax paid | (1,012) | (1,190) |
| Tax refunded | - | 260 |
| Net cash generated from operating activities | 11,645 | (4,845) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Placement of fixed deposits | (284) | (272) |
| Purchase of property, plant and equipment | (1,278) | (1,852) |
| Interest received | 231 | 272 |
| Effect of acquisition of a subsidiary | 2,550 | - |
| Disposal/(Acquisition) of quoted non-equity investment | (5,980) | 740 |
| Proceeds from disposal of property, plant and equipment | 62 | - |
| Net cash generated from/ (used in) investing activities | (4,699) | (1,112) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Interest paid | (773) | (218) |
| Drawdown/(Repayment) of term loan | (1,244) | (2,170) |
| Increase/(Repayment) of hire purchase creditors | (139) | (295) |
| Net increase/(decrease) in bills payable | 1,720 | (1,493) |
| Purchase of Treasury Shares | - | (25) |
| Net cash used in financing activities | (436) | (4,201) |
| Net increase/(decrease) in cash and cash equivalents | 6,510 | (10,158) |
| Currency translation difference | - | - |
| Cash and cash equivalents at beginning of the period | (19,852) | (6,757) |
| Cash and cash equivalents at end of the period | (13,342) | (16,915) |
| Cash and cash equivalents comprises :- | | |
| Short term investment and fixed deposits with licensed banks | 13,298 | 12,903 |
| Cash and bank balances | 3,548 | 2,783 |
| Bank overdraft | (16,972) | (19,777) |
| | (126) | (4,091) |
| FD pledged with licenced banks | (13,216) | (12,824) |
| | (13,342) | (16,915) |

Notes:

The Condensed Consolidated Statement of Cashflow should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017 and the accompanying notes attached to this quarterly financial report.

**UNAUDITED INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED
30 SEPTEMBER 2018****NOTES TO THE QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE THIRD
QUARTER ENDED 30 SEPTEMBER 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 Standard

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.

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



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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.

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.

**UNAUDITED INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED
30 SEPTEMBER 2018****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.

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; and
- g) Research and Development in Oil & Gas Industry.

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| Period ended 30 September 2018 | Investment Holding | Integrated Crane Services | Fabrication of Cranes | Workover Projects Lifting Solutions | Manpower Service | Supply, Fabrication & Servicing of Industrial Equipments & Tank Systems | Consultants in Engineering Project Support Services | Research & Development in Oil & Gas Industry | Elimination | 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 | - | 25,657 | 5,427 | 4,283 | | 2,063 | - | 3,166 | | 40,596 |
| Inter-segment revenue | - | - | - | - | 1,444 | - | 34 | - | (1,478) | - |
| Total revenue | - | 25,657 | 5,427 | 4,283 | 1,444 | 2,063 | 34 | 3,166 | (1,478) | 40,596 |
| Results | | | | | | | | | | |
| Profit from operations | - | 9,127 | 1,606 | 3,429 | 1,107 | 384 | - | (1,013) | - | 14,640 |
| Other operating income | | | | | | | | | | 1,041 |
| GP Margin | - | 36% | 30% | 80% | 77% | 19% | - | -32% | | |
| Administration & Other operation expenses | | | | | | | | | | (19,505) |
| Depreciation & amortization | | | | | | | | | | (2,096) |
| Finance cost | | | | | | | | | | (1,318) |
| Loss before tax | | | | | | | | | | (7,238) |
| Taxation | | | | | | | | | | 33 |
| Loss after tax | | | | | | | | | | (7,205) |
| Assets | | | | | | | | | | |
| Segment assets | 58,631 | 75,451 | 16,602 | 1,483 | 730 | 731 | 10,466 | 3,982 | (39,998) | 128,078 |
| Liabilities | | | | | | | | | | |
| Segment liabilities | 2,187 | 27,938 | 6,147 | 549 | 270 | 1,278 | 1,981 | 4,089 | (6,211) | 38,228 |



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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 | 3,359 |

**UNAUDITED INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED
30 SEPTEMBER 2018**
**NOTES TO THE QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE THIRD
QUARTER ENDED 30 SEPTEMBER 2018**
**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 2018
(a) Current Quarter (Q3 2018) vs Preceding Year Corresponding Quarter (Q3 2017)

| | Individual Period (3rd quarter) | | Variance | |
|---|------------------------------------|--|----------|-----|
| | Current Quarter | Preceding Year Corresponding Quarter | | |
| | 30 September 2018 | 30 September 2017 | RM' 000 | % |
| | RM' 000 | RM' 000 | | |
| Revenue | 11,508 | 12,634 | (1,126) | -9 |
| Gross Profits | 2,050 | 4,472 | (2,422) | -54 |
| Profit/(Loss) Before Interest and Tax | (5,631) | (1,284) | (4,347) | 339 |
| Profit/(Loss) Before Tax | (6,042) | (1,835) | (4,207) | 229 |
| Profit/(Loss) After Tax | (6,009) | (1,747) | (4,262) | 244 |
| Loss Attributable to Ordinary Equity Holders of the Parent | (4,418) | (1,747) | (2,671) | 153 |

For the current quarter, the Group posted a loss before tax of RM6.04 million as compared to a loss before tax of RM1.84 million registered in the preceding year corresponding quarter. This is mainly due to lower revenue reported ((3Q18: RM11.5 million vs 3Q17: RM12.6 million) and lower gross profit margin reported ((3Q18: 18% vs 3Q17: 35%) by our business segments. The decrease is also due to the increase in administration and other expenses (3Q18: RM7.3 million vs 3Q17: RM5.3 million) incurred during the current quarter.

Performance of the respective operating business segments for the 3rd Quarter 2018 as compared to the previous year corresponding quarter is analysed as follows:-

1) Integrated Crane Services

The revenue of this business segment has decreased from RM11.56 million in previous year corresponding quarter to RM5.44 million due to decrease in maintenance activities completed during the current quarter.



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The gross profit margin (3Q18: 8% vs 3Q17: 38%) has also decreased due to lower operational efficiency during the current quarter.

2) Fabrication of Cranes

The revenue of this business segment is recognized based on the percentage (%) completion method. As at the 3rd current quarter, the sales had increased from RM0.97 million in the previous year corresponding quarter to RM2.33 million in the current quarter. The increase is mainly due to the increase in new cranes orders received during the financial year.

The gross profit margin (3Q18: 45% vs 3Q17: 0%) had also increased in tandem with the increase in orders as well as due to better market sentiment and confidence in Handal's offshore pedestal cranes.

3) Workover Project Lifting Solutions

This business segment reported a revenue of RM2.83 million in the current quarter (3Q17: Nil). This is mainly due to the commencement of Well Maintenance Campaign by a major oil company that targets underperforming wells for maintenance which includes workover. This have benefited Handal as we are able to rent out our cranes as many of the rigs do not have the required cranes and expertise for the lifting during the workover maintenance period.

This segment had reported a gross profit margin of 78%.

4) Supply, Fabrication & Servicing of Industrial Equipments & Tank Systems

The revenue of this business segment had increased from RM0.11 million in the previous year corresponding quarter to RM0.20 million in the current quarter due to increased call-out maintenance activities carried out during the quarter.

However, the gross profit margin under this business segment (3Q18: 8% vs 3Q17: 22%) had decreased during the current quarter.

5) Research and Development in Oil & Gas Industry

With the completion of the acquisition of 51% in Handal Simflexi Sdn Bhd (formally known as Simflexi Sdn Bhd) on 14 March 2018, the Group had ventured into the pipeline engineering, advanced composite material, pipeline connector, sub-sea flexible tank system and research and development for oil and gas industry.

This is inline with the RM0.70 million revenue recorded in this segment during the current quarter (3Q17: Nil).



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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 2018 | 30 September 2017 | | |
| | RM' 000 | RM' 000 | RM' 000 | % |
| Revenue | 40,596 | 38,872 | 1,724 | 4 |
| Gross Profits | 14,640 | 17,078 | (2,438) | -14 |
| Profit/(Loss) Before Interest and Tax | (5,920) | (915) | (5,005) | 547 |
| Profit/(Loss) Before Tax | (7,238) | (2,258) | (4,980) | 221 |
| Profit/(Loss) After Tax | (7,205) | (2,384) | (4,821) | 202 |
| Loss Attributable to Ordinary Equity Holders of the Parent | (6,361) | (2,383) | (3,978) | 167 |

The Group recorded a loss before tax of RM7.24 million for the 9 months period ended September 2018 as compared to a loss before tax of RM2.26 million in the preceding year corresponding period. Although the revenue reported in the current period had increase from RM38.8 million in the preceding year corresponding period to RM40.6 million in current the 9 months period ended September 2018, the lower overall gross profit margin (YTD2018: 36% vs YTD2017: 44%) together with higher administration & operating expenses (3Q18: RM19.5 million vs 3Q17: RM16.8 million) had contributed to the higher loss before tax during the period.

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

1) Integrated Crane Services

The revenue of this business segment decreased from RM33.97 million in the preceding year corresponding period to RM25.66 million in the current 9 months period ended September 2018 due to lower maintenance activities carried out in the current period.

The gross profit margin had also decreased (YTD2018: 36% vs YTD2017: 49%) due to lower operational efficiency in the current period.

2) Fabrication of Cranes

The revenue of this business segment is recognized based on the percentage (%) completion method. The revenue of this business segment has increased from RM3.02 million in the previous year corresponding period to RM5.43 million in the current 9 months period ended September 2018. The increase is mainly due to the increase in new cranes orders received during the financial year.



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The gross profit margin (YTD18: 30% vs YTDQ17: 4%) had also increased in tandem with the increase in orders as well as due to better market sentiment and confidence in Handal offshore pedestal cranes.

3) Workover Project Lifting Solutions

There was no workover project recorded in the preceding year corresponding period as compared to RM4.28 million recorded in the current 9 months period ended September 2018. This is primarily due to the commencement of Well Maintenance Campaign by a major oil company that targets underperforming wells for maintenance which includes workover. This have benefited Handal as we are able to rent out our cranes as many of the rigs do not have the required cranes and expertise for the lifting during the workover maintenance period.

The business segment also reported a gross profit margin of 80% for the 9 months period ended September 2018.

4) Supply, Fabrication & Servicing of Industrial Equipments & Tank Systems

The revenue of this business segment has increased from RM1.88 million in the preceding year corresponding period to RM2.06 in the 9 months period ended September 2018, which is due to the increase in call-outs by client for maintenance activities to be carried out.

However, the gross profit margin (YTD2018: 19% vs YTD2017: 22%) had decreased.

5) Research and Development in Oil & Gas Industry

With the completion of the acquisition of 51% in Handal Simflexi Sdn Bhd (formally known as Simflexi Sdn Bhd) on 14 March 2018, the Group had ventured into the pipeline engineering, advanced composite material, pipeline connector, sub-sea flexible tank system and research and development for oil and gas industry.

This is inline with the RM3.17 million revenue recorded in this segment during the 9 months period ended September 2018. However, the gross profit margin (YTD2018: -32% vs YTD2017: Nil) under this segment have been lower than expected due to additional manpower hours incurred for the research and development activities carried out. In view of this, management is also in the midst of negotiating for a lower manhour rate for the additional hours incurred.

**UNAUDITED INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED
30 SEPTEMBER 2018**
B2. Material Changes In The Quarterly Results Compared To The Results Of The Preceding Quarter

| | Current Quarter | Immediate Preceding Quarter | Variance | |
|---|-------------------|--------------------------------|----------|-------|
| | 30 September 2018 | 30 June 2018 | RM' 000 | % |
| | RM' 000 | RM' 000 | | |
| Revenue | 11,508 | 14,981 | (3,473) | -23 |
| Gross Profits | 2,050 | 6,621 | (4,571) | -69 |
| Profit/(Loss) Before Interest and Tax | (5,631) | 172 | (5,803) | -3374 |
| Profit/(Loss) Before Tax | (6,042) | (261) | (5,781) | 2215 |
| Profit/(Loss) After Tax | (6,009) | (229) | (5,780) | 2524 |
| Loss Attributable to Ordinary Equity Holders of the Parent | (4,418) | (984) | (3,434) | 349 |

During the current quarter, the Group recorded a loss before tax of RM6.04 million as compared to a loss before tax of RM0.26 million in the preceding quarter. This is mainly due to the lower revenue reported during the current quarter and also due to the lower overall gross margin reported during the period. The lower gross profit margin is mainly attributed to the Intergrated Crane Services and the Research and Development in Oil & Gas Industry business segments.

B3. Prospects

The Group performance is expected to be challenging for the current financial year in view of the uncertainty and volatility in global oil supply. This has caused most oil majors to be more prudent in their spending and conservative in any future capital commitment. Therefore, the management is less optimistic on the performance of the Group for the rest of the current financial year. Nonetheless, the Group has an outstanding orderbook of approximately RM82.11 million which primarily derives from the Integrated Crane Services and Fabrication of Cranes business segment.

Management intends to implement a four (4) year turnaround plan built around two core pillars; (i) growing and strengthening the crane business and (ii) diversification of earnings base into related business in the oil & gas industry. The management have also put in place several improvements to support the future growth and to preserve sustainable gross margins for the Group including cost and process management, enhancing the Company's capital base as well as placing priority in the development of talent within the Group. These measures are not only expected to bring positive impact to the Group's financial position moving forward, but also to supporting a dynamic working culture and environment at Handal.

Barring any unforeseen circumstances, the Board remains optimistic on the long-term prospect of the Group.

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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 September 2018 RM' 000 | For the period ended 30 September 2018 RM' 000 |
|--------------|---|--|
| Current tax | (33) | (33) |
| Deferred tax | - | - |
| | (33) | (33) |

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.

B6. Status of Corporate Proposals

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

B7. Group Borrowings and Debt Securities

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

| | As at 30 September 2018 <u>RM'000</u> | As at 30 September 2017 <u>RM'000</u> |
|---|--|--|
| Short term borrowings- Secured | | |
| Bank overdrafts | 15,831 | 19,776 |
| Bankers'acceptances/Invoice Financing (IVF) | 6,400 | 4,587 |
| Term Loan | 1,140 | 2,293 |
| Hire Purchase liabilities | 197 | 185 |
| | 23,568 | 26,841 |
| Long term borrowings- Secured | | |
| Term Loan | - | - |
| Hire Purchase liabilities | 270 | 467 |
| | 270 | 467 |
| Total Borrowings | 23,838 | 27,308 |

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B8. Material Litigation

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

B9. Earnings/ (Loss) Per Share

| Individual Period | | Cumulative Quarter | |
|--|--|--|---|
| Current Quarter Ended 30-September-18 | Corresponding Quarter Ended 30-September-17 | Cumulative Year To Date 30-September-18 | Corresponding Year To Date 30-September-17 |
| RM'000 | RM'000 | RM'000 | RM'000 |

BASIC EARNINGS PER SHARE

| | | | | |
|--|---------|---------|---------|---------|
| Loss for the period attributable to ordinary equity holders of the company | (4,418) | (1,747) | (6,361) | (2,383) |
| Weighted average number of ordinary shares in issue ('000) | 159,690 | 159,690 | 159,690 | 159,690 |
| Basic earning per share (sen) | (2.77) | (1.09) | (3.98) | (1.49) |

B10. Profit/ (Loss) before Taxation

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

| | Current Quarter ended 30 September 2018 RM'000 | Cumulative Quarter ended 30 September 2018 RM'000 |
|---------------------------------|--|---|
| - Interest Income | 96 | 284 |
| - Foreign exchange gain/(loss) | (17) | (241) |
| - Short Term Investment Income | 125 | 240 |
| - Depreciation and amortization | (696) | (2,096) |

B11. Dividends

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



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B12. Trade Receivables

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

| | As at 30 September 2018 RM'000 | As at 30 September 2017 RM'000 |
|---|---|---|
| Neither past due nor impaired | 13,299 | 24,315 |
| 1 to 30 days past due not impaired | 5,542 | 1,609 |
| 31 to 60 days past due not impaired | 2,345 | 711 |
| 61 to 90 days past due not impaired | 3,318 | 361 |
| More than 90 days past due not impaired | 2,772 | 2,716 |
| | 13,977 | 5,397 |
| Past due and impaired | 237 | 25 |
| | 27,513 | 29,737 |
| Less: Impairment losses | (237) | (25) |
| | <u>27,276</u> | <u>29,712</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 RM13.98 million (30 September 2017: RM5.40 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 RM2.55 million from these outstanding trade receivables based on the latest practical date of 31 October 2018.