HENG HUAT RESOURCES GROUP BERHAD

(Company No. 969678-D)
(Incorporated in Malaysia under the Companies Act, 2016)

INTERIM FINANCIAL REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2018

CONTENTS **PAGE**

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

	Individual Quarter		Cumulative Period	
	Current Year Quarter 30.06.2018 [1] RM'000	Preceding Year Corresponding Quarter 30.06.2017 RM'000	Current Year Period 30.06.2018 [1] RM'000	Preceding Year Corresponding Period 30.06.2017 RM'000
Revenue	34,989	28,650	57,042	56,197
Cost of sales	(25,182)	(18,339)	(40,555)	(36,456)
Gross profit ("GP")	9,807	10,311	16,487	19,741
Other income	446	15	976	1,210
Selling and distribution expenses	(5,770)	(5,065)	(10,062)	(10,611)
Administrative and other expenses	(3,061)	(3,073)	(6,169)	(6,836)
Finance costs	(880)	(824)	(1,724)	(1,578)
Profit/(Loss) before tax	542	1,364	(492)	1,926
Tax income/(expenses)	153	(409)	68	(525)
Profit/(Loss) after tax/ Total comprehensive income/(loss)	**695**	955	**(424)**	1,401
Profit/(Loss) for the financial period/ Total comprehensive income/(loss) attributable to:				
- Owners of Heng Huat	692	1,030	(436)	1,521
- Non-controlling interests	3	(75)	12	(120)
	695	955	**(424)**	1,401
Earnings/(Loss) per share attributable to owners of Heng Huat:				
- Basic (sen) [2]	0.22	0.33	(0.14)	0.49
- Diluted (sen) [2]	N/A	N/A	N/A	N/A

Notes:

N/A *Not applicable.*

[1] *The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.*

[2] *Kindly refer to* ***Note B8*** *for further details.*

[THE REST OF THE PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	As at 30.06.2018 [(1)] RM'000 (unaudited)	As at 31.12.2017 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	99,883	105,259
Intangible assets	3,659	4,258
	103,542	109,517
Current Assets		
Inventories	14,911	11,078
Derivative asset	-	131
Current tax assets	158	-
Trade and other receivables	36,288	37,708
Cash and cash equivalents	7,096	9,451
	58,453	58,368
TOTAL ASSETS	**161,995**	**167,885**
Equity		
Share capital	36,324	36,324
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	46,656	48,189
	77,795	79,328
Non-controlling interests	374	482
Total Equity	**78,169**	**79,810**
Non-Current Liabilities		
Borrowings	19,562	21,656
Deferred tax liabilities	1,736	1,945
	21,298	23,601
Current Liabilities		
Trade and other payables	26,626	27,955
Derivative liabilities	129	-
Current tax liabilities	-	120
Borrowings	35,773	36,399
	62,528	64,474
Total Liabilities	**83,826**	**88,075**
TOTAL EQUITY AND LIABILITIES	**161,995**	**167,885**
NET ASSETS PER SHARE (RM) [(2)]	**0.252**	**0.257**

Notes:

(1) The unaudited Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

*(2) Calculated based on the Company's existing issued and paid-up share capital of 308,700,045 ordinary shares ("**Shares**").*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	[--------- Non-Distributable --------]			*Distributable*			
	Share capital RM'000	**Share premium RM'000**	**Reorganisation reserve RM'000**	**Retained earnings RM'000**	**Total attributable to owners of the Company RM'000**	**Non-controlling interests RM'000**	**Total equity RM'000**
At 1 January 2018	36,324	-	(5,185)	48,189	**79,328**	482	**79,810**
Adjustment of MFRS recognition:							
- MFRS 9	-	-	-	(732)	**(732)**	-	**(732)**
- MFRS 15	-	-	-	(365)	**(365)**	-	**(365)**
Total comprehensive loss for the financial period	-	-	-	(436)	**(436)**	12	**(424)**
Dividend paid to non-controlling shareholders of a subsidiary	-	-	-	-	-	(120)	**(120)**
At 30 June 2018	36,324	-	(5,185)	46,656	**77,795**	374	**78,169**
At 1 January 2017	30,870	5,454	(5,185)	44,697	**75,836**	3,707	**79,543**
Total comprehensive income for the financial period	-	-	-	1,521	**1,521**	(120)	**1,401**
Acquisition of non-controlling interests without a change in control	-	-	-	3,086	**3,086**	(3,086)	**-**
At 30 June 2017	30,870	5,454	(5,185)	49,304	**80,443**	501	**80,944**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Year-to-date ended	
	30.06.2018 RM'000	30.06.2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before tax	(492)	1,926
Adjustments for:		
Amortisation of intangible assets	599	599
Bad debt written-off	-	73
Depreciation of property, plant and equipment	5,261	5,518
Fair value adjustment on derivative instruments	260	(479)
Gain on disposal of property, plant and equipment	(70)	7
Intangible assets written-off	-	3
Property, plant and equipment written-off	6	8
Provision/(Reversal) of impairment of receivables	4	(88)
Interest expense	1,724	1,578
Interest income	(15)	(39)
Unrealised (gain)/ loss on foreign exchange	(449)	885
Operating profit before working capital changes	6,828	9,991
Increase in inventories	(3,833)	(1,829)
Decrease/(Increase) in trade and other receivables	765	(2,592)
(Decrease)/Increase in trade and other payables	(1,329)	893
	2,431	6,463
Tax (paid)/refund	(419)	226
Net cash from operating activities	**2,012**	**6,689**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	15	39
Proceeds from disposal of property, plant and equipment	1,026	413
Purchase of property, plant and equipment	(574)	(7,215)
Changes in fixed deposits pledged with licensed banks	446	89
Net cash generated from/(used in) investing activities	**913**	**(6,674)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	(120)	-
Interest paid	(1,724)	(1,578)
Net drawdown of bankers' acceptance	29	24
Net repayment of term loans	(1,820)	(1,268)
Net repayment of hire purchase payables	(745)	(1,830)
Net cash used in financing activities	**(4,380)**	**(4,652)**
Net changes in cash and cash equivalents	(1,455)	(4,637)
Effects of foreign exchange	3	(10)
Cash and cash equivalents at beginning of the financial period	(4,814)	2,434
Cash and cash equivalents at end of the financial period	**(6,266)**	**(2,213)**

Remark
** Less than RM1,000*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd) (UNAUDITED)

	Year-to-date ended	
	30.06.2018	**30.06.2017**
	RM'000	**RM'000**
Cash and cash equivalents comprise the following:		
Cash and bank balances	5,141	10,544
Fixed deposits pledged to financial institutions	1,955	2,462
	7,096	13,006
Less: Bank overdraft	(11,407)	(12,757)
Less: Fixed deposits pledged to financial institutions	(1,955)	(2,462)
	(6,266)	(2,213)

Note:
The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

[THE REST OF THE PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134

A1. BASIS OF PREPARATION

The condensed consolidated interim financial statements as contained in this interim financial report are unaudited and have been prepared under the historical cost convention except otherwise stated.

These unaudited interim financial statements have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB") and Part K, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements ("ACE LR") issued by Bursa Malaysia Securities Berhad ("Bursa Securities").

These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2017 and the accompanying explanatory notes attached to this interim financial report. The explanatory notes contained herein 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 2017.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation applied in the preparation of these unaudited interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2017, except for the adoption of the following MFRS and Amendments to MFRSs as disclosed below:

Effective for annual periods commencing on or after 1 January 2018

- Amendments to MFRS 1 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- MFRS 9 *Financial Instruments (IFRS 9 as issued by IASB in July 2014)*
- MFRS 15 *Revenue from Contracts with Customers*
- Clarifications to MFRS 15
- Amendments to MFRS 128 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 140 *Transfers of Investment Property*
- IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to MFRS 4 *Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts* *** [See MFRS 4 Paragraphs 46 and 48 for the effective date] ***

The adoption of the above MFRS and Amendments to MFRSs did not have any significant financial impact to the Group, other as disclosed below:

A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

MFRS 9 *Financial Instruments*

MFRS 9 is effective for annual periods beginning on or after 1 January 2018. MFRS 9 introduces new requirements for classification and measurement of financial instruments, impairment assessment based on the Expected Credit Loss ("ECL") model and hedge accounting.

The Group has applied MFRS 9 retrospectively on the initial application date of 1 January 2018 and has elected not to restate comparatives.

The adoption of MFRS 9 did not have any significant effects on the interim financial report upon their initial application, except for the effect of applying the impairment assessment based on the ECL model on trade receivables.

The Group has applied forward-looking impairment policy to calculate the expected credit losses on all trade receivables. For the purpose of assessing the new ECL impairment model, the Group had categorised the customers into segments of customers portfolio based on past repayment records, credit terms provided as well as assessing the economic factors of each individual market it operates in.

MFRS 15 *Revenue from Contracts with Customers*

The Group has early adopted MFRS 15 in the current financial year. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods and services to customers for an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

In summary, the impacts of adopting both MFRS 9 and MFRS 15 to opening balances are as follows:

Statement of financial position

	Previously stated on 31.12.2017 RM'000	Effects of MFRS 9 RM'000	Effects of MFRS 15 RM'000	Restated on 01.01.2018 RM'000
Assets				
Trade receivables	37,708	(732)	(365)	36,611
Impact to assets	37,708	(732)	(365)	36,611
Equity				
Retained earnings	48,189	(732)	(365)	47,092

A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The following MFRSs and Amendments to MFRSs have been issued by the MASB but are not early adopted by the Group:

Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 Leases
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to MFRS 11 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 112 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 119 *(Plan Amendment, Curtailment or Settlement)*
- Amendments to MFRS 123 (*Annual Improvements to MFRS Standards 2015 – 2017 Cycle*)
- Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*

Effective for annual periods commencing on or after 1 January 2020

- Amendments to MFRS 2 *Share-based Payment*
- Amendments to MFRS 3 *Business Combinations*
- Amendments to MFRS 6 *Exploration for and Evaluation of Mineral Resources*
- Amendments to MFRS 101 *Presentation of Financial Statements*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134 *Interim Financial Reporting*
- IC Interpretation 132 *Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs*

Effective for annual periods commencing on or after 1 January 2021

- MFRS 17 *Insurance Contracts*

Deferred (date to be determined by MASB)

- Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group is in the process of assessing the impact of implementing these accounting standards and amendments, since the effects would only be observable for the future financial years.

A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the Group's most recent annual audited financial statements for the financial year ended 31 December 2017 were not subject to any qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATION

Save for oil palm empty fruit bunch ("EFB") fibre, the Group's biomass materials and value-added products are not significantly affected by seasonal/cyclical effects. Demand for the Group's oil palm EFB fibre generally experience a decline during the Chinese New Year season mainly due to slowdown in logistics services and business activities in China during this period as businesses are closed for holidays during the festive season.

The Group typically experience higher sales of mattresses and related products prior to major festive season such as Chinese New Year and Hari Raya in tandem with the expected increase in household spending for such items during such periods.

A5. UNUSUAL ITEMS

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group during the current quarter and financial period under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial years that have a material impact on the current quarter and financial period under review.

A7. DEBTS AND EQUITY SECURITIES

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period under review.

A8. DIVIDEND PAID/ DECLARED

The Board of Directors did not recommend any payment of dividend during the current quarter and financial period under review. (*FYE 30 June 2017: Nil*)

A9. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There were no material events subsequent to the end of current quarter and financial period under review that have not have been reflected in this interim financial report/ announced to the Bursa Securities.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group during the current quarter and financial period under review.

A11. CHANGES IN CONTINGENT LIABILITIES

There are no material contingent liabilities as at the date of this report.

A12. CAPITAL COMMITMENTS

There were no material capital commitments in respect of property, plant and equipment which were not provided in the financial statements as at 30 June 2018.

	As at 30.06.2018 RM'000
Property, plant and equipment	
Approved but not contracted for	-
Contracted but not provided for	800
	800

A13. SEGMENT INFORMATION

The Group, through its subsidiaries, are principally engaged in manufacturing and trading of biomass materials and manufacturing and trading of mattresses and related products. There is no change to the principal activities of the Group during the current quarter and financial period under review.

The Group has arrived at two (2) reportable segments that are organised and managed separately according to the nature of products, specific expertise and technologies requirements, which requires different business and marketing strategies. The reportable segments are summarised as follows:

(i) Biomass materials and related products

Manufacturing and trading of coconut fibre and related products, and oil palm EFB fibre and related products.

(ii) Mattresses and related products

Manufacturing and trading of mattresses and related products.

A13. SEGMENT INFORMATION (cont'd)

	Current quarter ended		Year-to-date ended	
	30.06.2018 RM'000	**30.06.2017 RM'000**	**30.06.2018 RM'000**	**30.06.2017 RM'000**
Segment Revenue				
Biomass materials and related products	28,265	25,341	48,840	49,538
Mattresses and related products	6,112	5,646	12,532	11,186
	34,377	30,987	61,372	60,724
Elimination of intragroup transactions	612	(2,337)	(4,330)	(4,527)
Revenue from external customers	**34,989**	**28,650**	**57,042**	**56,197**
Segment Results				
Biomass materials and related products	911	1,854	324	2,713
Mattresses and related products	(22)	(29)	(124)	(79)
	889	1,825	200	2,634
Unallocated corporate income and expenses (net)	(347)	(291)	(692)	(538)
Elimination of intragroup transactions and profits	-	(170)	-	(170)
Profit before tax of the Group	**542**	**1,364**	**(492)**	**1,926**
Segment Assets				
Biomass materials and related products	151,962	167,030	151,962	167,030
Mattresses and related products	17,949	16,812	17,949	16,812
	169,911	183,842	169,911	183,842
Tax assets	158	208	158	208
Unallocated assets	18,901	28,747	18,901	28,747
Elimination of intragroup balances and profits	(26,975)	(46,622)	(26,975)	(46,622)
Total assets of the Group	**161,995**	**166,175**	**161,995**	**166,175**
Segment Liabilities				
Biomass materials and related products	84,843	107,505	84,843	107,505
Mattresses and related products	15,654	13,931	15,654	13,931
	100,497	121,436	100,497	121,436
Tax liabilities	1,736	1,433	1,736	1,433
Unallocated liabilities	8,142	8,582	8,142	8,582
Elimination of intragroup balances and profits	(26,549)	(46,220)	(26,549)	(46,220)
Total liabilities of the Group	**83,826**	**85,231**	**83,826**	**85,231**

A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	30.06.2018 RM'000	**30.06.2017 RM'000**	**30.06.2018 RM'000**	**30.06.2017 RM'000**
Purchase of oil palm EFB ^	-	216	-	319
Renting of a single storey office annexed with a single storey detached factory used for oil palm EFB fibre manufacturing ^	-	18	-	36
Renting of two storey office with single storey detached factory used for mattress production and warehouse	127	78	205	156
Renting of vacant land for placement of portable cabins used for staff accommodation	30	30	60	60

^ *Upon completion of the acquisition of the remaining 50% equity stake in HK Palm Fibre on 26 May 2017, the supplier of oil palm EFB (i.e. Arah Kawasan Sdn Bhd) has ceased to be a related party. Any subsequent purchase of oil palm EFB from the said supplier will no longer be considered as related party transaction.*

The above transactions are necessary for the Group's day-to-day operations and are undertaken in the ordinary course of business. The above transactions are carried out on terms not more favourable to the related parties than those generally available to the public, which are not to the detriment of the non-controlling shareholders of the Group.

[THE REST OF THE PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

ADDITIONAL INFORMATION REQUIRED BY THE ACE MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. ANALYSIS OF PERFORMANCE

Revenue

Our Group's total revenue for the current quarter and financial period ended 30 June 2018 stood at RM34.99 million and RM57.04 million respectively, representing an improvement of RM6.34 million or 22.13% and RM0.84 million or 1.49% respectively as compared to the preceding year corresponding quarter and period.

Current Quarter Under Review

The improved sales performance was primarily attributable to the following factors:

(i) Increase in sales volume of oil palm EFB fibre, where total quantities sold during the current quarter under review has risen by approximately 19.96% as compared to the preceding year corresponding quarter. The increase was due to the gradual recovery of market demand from China; and

(ii) Increase in sales of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre, by approximately RM0.54 million or 15.66%.

However, the growth was partially offset by the decrease in average selling prices of oil palm EFB fibre, which has reduced by approximately 4.80% as compared to the preceding year corresponding quarter.

Current Financial Period Under Review

The improved sales performance was primarily attributable to the increase in revenue from sales of bio-oil, which has improved by approximately RM2.26 million or 43.24% respectively as compared to the preceding year corresponding period.

However, the growth was partially offset by the following:

(i) Decrease in sales volume of oil palm EFB fibre during the financial period under review by approximately 6.96% as compared to preceding year corresponding period. The decrease was due to the moderation of sales performance in preceding quarter; and

(ii) Decrease in average selling prices of oil palm EFB fibre, which has reduced by approximately 6.44% as compared to the preceding year corresponding period.

Profit Before Tax

Our Group reported a profit before tax of approximately RM0.54 million for the current quarter and a loss before tax of approximately RM0.49 million for the financial period ended 30 June 2018, representing a decrease of approximately 60.29% and 125.39% respectively as compared to the preceding year corresponding quarter and period.

B1. ANALYSIS OF PERFORMANCE (cont'd)

Current Quarter Under Review

The moderation of profit before tax for the current quarter under review as compared to the preceding year corresponding quarter, was primarily due to the following:

(i) Increase in cost of sales as a result of higher production costs; and

(ii) Increase in selling and distribution expenses as a result of higher transportation costs, in line with the higher quantities of oil palm EFB fibre exported.

The decrease in profit before tax was, however, partially offset by an increase in other income as a result of higher foreign exchange gain.

Current Financial Period Under Review

The moderation of profit before tax for the financial period under review, as compared to the preceding year corresponding period, was primarily due to the increase in cost of sales as a result of higher production costs.

The decrease in profit before tax was, however, partially offset by the following:

(i) Decrease in selling and distribution expenses as a result of lower transportation costs, as a result of lower quantities of oil palm EFB fibre exported; and

(ii) Lower net foreign exchange losses recorded as compared to the preceding year corresponding period.

Profit After Tax

In line with the moderation of profit before tax as explained above, our Group reported a profit after tax of approximately RM0.70 million for the current quarter and a loss after tax of approximately RM0.42 million for the financial period ended 30 June 2018, representing a decrease of approximately 27.08% and 130% respectively as compared to the preceding year corresponding quarter and period.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 30.06.2018	Preceding quarter ended 31.03.2018
	RM'000	**RM'000**
Profit/(Loss) before tax	542	(1,034)

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER (cont'd)

Our Group recorded a profit before tax of approximately RM0.54 million for the current quarter ended 30 June 2018, improved by approximately RM1.57 million or 152.43% as compared to the preceding quarter ended 31 March 2018. The improved profit level was primarily due to higher gross profit recorded, which was in line with the increase in revenue from sales of oil palm EFB fibre and bio-oil by approximately RM8 million or 79.09% and RM0.46 million or 13.11% respectively.

B3. PROSPECTS

Looking ahead, our Group expect the orders for oil palm EFB fibre from China, being the primary market, will experience greater degree of volatility due to its gradual slowdown in economic growth, as policy support is expected to ease, led by regulatory and macroprudential tightening. Fiscal policies are expected to become less accommodative to contain financial risks. *(Source: Global Economic Prospects – June 2018, World Bank Group)*

Our Group is ramping up efforts in expanding the market coverage to the rest of the Asia region besides China, in an attempt to mitigate the gradual slowdown in economic growth of China. Notwithstanding that, our Group remain cautiously optimistic that orders for oil palm EFB fibre from China in the mid and long term will be promising backed by the rising population in China and increasing demand for raw material alternatives that are cheaper, natural and environmentally-friendly.

Following the completion and commencement of our Group's new production plant at Gua Musang, our Group is better positioned to step up the efforts in penetrating new customer segment as well as expanding the market coverage.

The Board will monitor the market development closely, and ensure that prompt actions are taken in response to the changes. Moreover, the Board will, from time to time, identify appropriate new business venture/ opportunity to enhance and expand the Group's revenue base and source.

Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's operations for the financial year ending 31 December 2018 will remain stable.

B4. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable as no profit forecast or profit guarantee has been previously published or issued by the Group.

B5. TAX EXPENSES

	Current quarter ended 30.06.2018 RM'000	Year-to-date ended 30.06.2018 RM'000
Current tax expenses	(22)	(141)
Deferred tax income	175	209
Total tax income	153	68
Effective tax rate	+28.23%	+13.82%

The Group's effective tax rate for the current quarter and financial period under review stood at +28.23% and +13.82% (representing a tax income position).

The tax income position for the current quarter and financial period under review, as compared to the applicable statutory tax rate of 24%, was primarily due to deferred tax assets recognised in relation to the losses incurred by the Group's operating subsidiaries.

B6. STATUS OF CORPORATE PROPOSALS

There is no corporate proposal announced but not completed as at the date of this report.

B7. BORROWINGS

The Group's borrowings as at 30 June 2018 are as follows:-

	Short Term (Within 12 months) **RM'000**	**Long Term** (> 12 months) **RM'000**	**Total** **RM'000**
Secured and guaranteed			
Bankers' acceptance	16,639	-	16,639
Bank overdrafts	11,407	-	11,407
Hire purchase payables	4,020	5,841	9,861
Term loans	3,707	13,721	17,428
Total Borrowings	**35,773**	**19,562**	**55,335**

All the borrowings are denominated in Ringgit Malaysia (RM), and obtained from financial institutions based in Malaysia.

B8. EARNINGS PER SHARE

Basic Earnings per Share ("BEPS")

	Current quarter ended		Year-to-date ended	
	30.06.2018 RM'000	**30.06.2017 RM'000**	**30.06.2018 RM'000**	**30.06.2017 RM'000**
Basic earnings per share				
Profit/(Loss) attributable to equity holders of the parent	692	1,030	(436)	1,521
Weighted average number of ordinary shares in issue ('000)	308,700	308,700	308,700	308,700
BEPS (sen)	0.22	0.33	(0.14)	0.49

Diluted Earnings per Share ("DEPS")
No diluted earnings per share is disclosed as the Company does not have any dilutive potential ordinary shares (such as options or convertible instruments) in issue as at 30 June 2018.

B9. CHANGES IN MATERIAL LITIGATION

As at the date of this report, there is no litigation or arbitration, which has a material effect on the financial position of the Group, and the Board of Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

B10. DISCLOSURE ON SELECTED INCOME/EXPENSE ITEMS

Included in profit before tax comprised the following income/(expense) items:

	Current quarter ended 30.06.2018 RM'000	**Year-to-date ended 30.06.2018 RM'000**
Interest income	8	15
Other income including investment income	143	273
Interest expense	(880)	(1,724)
Depreciation expenses	(2,632)	(5,261)
Amortisation expenses	(300)	(599)
Net foreign exchange gain/(loss)	107	(276)
Gain on disposal of property, plant and equipment	14	70
Fair value loss on derivative instruments	(193)	(260)
Provision of impairment of receivables	(1)	(4)
Property, plant and equipment written off	-	(6)
Provision for doubtful debts and write-off of receivables	-	-
Intangible assets written off	-	-
Impairment of assets	-	-
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Exceptional items	-	-

B11. FINANCIAL INSTRUMENTS

Derivatives

The Group have entered into forward foreign currency contracts to operationally hedge forecast sales collection denominated in foreign currency that are expected to occur at various dates within the next (12) months from the end of the reporting period.

As at 30 June 2018, the Group have the following outstanding forward currency contracts:

	[----Contract/ Notional Value-----]		Fair value as at 30.06.2018
Type of Derivatives	**USD'000**	**RM'000 equivalent**	**RM'000**
Forward Foreign Currency Contracts			
- Less than 1 year	1,490	5,875	5,746
	1,490	5,875	5,746

The fair value of a forward foreign currency contract is the amount that would be payable or receivable upon termination of the outstanding position arising and is determined by reference to the difference between the contracted rate and the forward exchange rate as at the end of each reporting period applied to a contract of similar amount and maturity profile.

The difference between the forward rates entered into, and the market rates, is recognised as derivatives liability or asset as applicable with a corresponding amount reported in the profit or loss.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2017 in respect of the followings:

(i) the credit risk market risk and liquidity risk associated with the derivatives;

(ii) the cash requirements of the derivatives;

(iii) the policies in place for mitigating or controlling the risks associated with the derivatives; and

(iv) the related accounting policies.

Gains / (Losses) arising from Fair Value Changes of Financial Liabilities

The Group recorded net fair value loss of approximately RM260,000 during the financial period under review, as a result of reversal of derivative asset associated with forward foreign currency contracts which lapsed during the current quarter under review and after offsetting fair value changes of the forward foreign currency contracts entered into by the Group and outstanding as at 30 June 2018.