



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 2019

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

	Individual Quarter		Cumulative Period	
	Current Year Quarter 30.06.2019 ⁽¹⁾ RM'000	Preceding Year Corresponding Quarter 30.06.2018 RM'000	Current Year Period 30.06.2019 ⁽¹⁾ RM'000	Preceding Year Corresponding Period 30.06.2018 RM'000
Revenue	27,430	34,989	51,102	57,042
Cost of sales	(19,263)	(25,182)	(35,645)	(40,555)
Gross profit ("GP")	8,167	9,807	15,457	16,487
Other income	155	446	532	976
Selling and distribution expenses	(5,347)	(5,770)	(9,599)	(10,062)
Administrative and other expenses	(1,981)	(3,061)	(4,678)	(6,169)
Finance costs	(791)	(880)	(1,614)	(1,724)
Gain/(Loss) before tax	203	542	98	(492)
Tax income/(expenses)	(24)	153	318	68
Profit/(Loss) after tax/ Total comprehensive income/(loss)	179	695	416	(424)
Profit/(Loss) for the financial period/ Total comprehensive income/(loss) attributable to:				
- Owners of Heng Huat	177	692	401	(436)
- Non-controlling interests	2	3	15	12
	179	695	416	(424)
Earnings/(Loss) per share attributable to owners of Heng Huat:				
- Basic(sen) ⁽²⁾	0.05	0.22	0.12	(0.14)
- 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 2018 and the accompanying explanatory notes attached to this interim financial report.

⁽²⁾ Kindly refer to Note **B8** for further details.

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

	As at 30.06.2019 ⁽¹⁾ RM'000 (unaudited)	As at 31.12.2018 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	89,832	92,864
Intangible assets	2,563	3,060
	92,395	95,924
Current Assets		
Inventories	13,235	13,127
Derivative asset	21	-
Current tax assets	598	495
Trade and other receivables	38,889	32,640
Cash and cash equivalents	5,636	10,180
	58,379	56,442
TOTAL ASSETS	150,774	152,366
Equity		
Share capital	40,538	40,538
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	43,997	43,594
	79,350	78,947
Non-controlling interests	280	265
Total Equity	79,630	79,212
Non-Current Liabilities		
Borrowings	17,799	17,744
Deferred tax liabilities	673	1,114
	18,472	18,858
Current Liabilities		
Trade and other payables	23,258	25,245
Derivative liabilities	-	25
Current tax liabilities	-	26
Borrowings	29,414	29,000
	52,672	54,296
Total Liabilities	71,144	73,154
TOTAL EQUITY AND LIABILITIES	150,774	152,366
NET ASSETS PER SHARE (RM)⁽²⁾	0.226	0.225

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 2018 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 339,570,045 ordinary shares ("Shares").



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

	[----- Non-distributable -----]	Distributable	Total attributable to owners of the Parent RM'000	Non- controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Reorganisation debit reserve RM'000	Retained earnings RM'000		
At 1 January 2019	40,538	(5,185)	43,596	78,949	265
Total comprehensive income for the financial period	-	-	401	401	15
At 30 June 2019	40,538	(5,185)	43,997	79,350	280
At 1 January 2018	36,324	(5,185)	48,189	79,328	482
Adjustment of MFRS recognition:					
- MFRS 9			(732)	(732)	-
- MFRS 15			(365)	(365)	-
Total comprehensive (loss)/income for the financial period	-	-	(436)	(436)	12
Dividend paid to non-controlling shareholders of a subsidiary	-	-	-	-	(120)
At 30 June 2018	36,324	(5,185)	46,656	77,795	374

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 2018 and the accompanying explanatory notes attached to this interim financial report.



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)**

	Year-to-date ended	
	30.06.2019 RM'000	30.06.2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Gain/(Loss) before tax	98	(492)
<u>Adjustments for:</u>		
Amortisation of intangible assets	497	599
Depreciation of property, plant and equipment	4,630	5,261
Fair value adjustment on derivative instruments	(47)	260
Gain on disposal of property, plant and equipment	(73)	(70)
Property, plant and equipment written-off	11	6
(Reversal)/Provision for impairment of receivables	(100)	4
Interest expense	1,614	1,724
Interest income	(19)	(15)
Unrealised gain on foreign exchange	(96)	(449)
	<hr/>	<hr/>
Operating profit before working capital changes	6,515	6,828
Increase in inventories	(108)	(3,833)
(Increase)/Decrease in trade and other receivables	(5,987)	765
Decrease in trade and other payables	(1,986)	(1,329)
	<hr/>	<hr/>
Tax paid	(1,566)	2,431
	<hr/>	<hr/>
Net cash (used in)/from operating activities	(1,816)	2,012
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	19	15
Proceeds from disposal of property, plant and equipment	74	1,026
Purchase of property, plant and equipment	(1,611)	(574)
Changes in fixed deposits pledged with licensed banks	844	446
	<hr/>	<hr/>
Net cash (used in)/from investing activities	(674)	913
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	-	(120)
Interest paid	(1,614)	(1,724)
Net repayment/drawdown of bankers' acceptance	(725)	29
Net drawdown/repayment of term loans	1,134	(1,820)
Net repayment of hire purchase payables	(1,789)	(745)
	<hr/>	<hr/>
Net cash used in financing activities	(2,994)	(4,380)
Net changes in cash and cash equivalents	(5,484)	(1,455)
Effects of foreign exchange	(66)	3
Cash and cash equivalents at beginning of the financial period	(1,058)	(4,814)
	<hr/>	<hr/>
Cash and cash equivalents at end of the financial period	(6,608)	(6,266)



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

	Year-to-date ended	
	30.06.2019	30.06.2018
	RM'000	RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	4,737	5,141
Fixed deposits pledged to financial institutions	899	1,955
	5,636	7,096
Less: Bank overdraft	(11,345)	(11,407)
Less: Fixed deposits pledged to financial institutions	(899)	(1,955)
	(6,608)	(6,266)

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 2018 and the accompanying explanatory notes attached to this interim financial report.

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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 2018 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 2018.

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 2018, 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 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*

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

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 2020

- Amendments to *References to the Conceptual Framework in MFRS Standard*
- Amendments to MFRS 3 *Definition of a Business*
- Amendments to MFRS 101 and MFRS 108 *Definition of Material*

Effective for annual periods commencing on or after 1 January 2021

- MFRS 17 *Insurance Contracts*



A2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 2018 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 2018: 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 been reflected in this interim financial report or 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

The Group's capital commitments in respect of property, plant and equipment which were not provided in the financial statements as at 30 June 2019 is as follows:

	As at 30.06.2019 RM'000
Property, plant and equipment	
Approved but not contracted for	-
Contracted but not provided for	3,605
	<u>3,605</u>

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	
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
<u>Segment Revenue</u>				
Biomass materials and related products	25,195	28,265	46,906	48,840
Mattresses and related products	4,823	6,112	9,162	12,532
	30,018	34,377	56,068	61,372
Elimination of intragroup transactions	(2,588)	612	(4,966)	(4,330)
Revenue from external customers	27,430	34,989	51,102	57,042
<u>Segment Results</u>				
Biomass materials and related products	298	911	863	324
Mattresses and related products	(26)	(22)	(516)	(124)
	272	889	347	200
Unallocated corporate income and expenses(net)	(69)	(347)	(249)	(692)
Elimination of intragroup transactions and profits	-	-	-	-
Gain/(Loss) before tax of the Group	203	542	98	(492)
<u>Segment Assets</u>				
Biomass materials and related products	140,328	151,962	140,328	151,962
Mattresses and related products	14,742	17,949	14,742	17,949
	155,070	169,911	155,070	169,911
Tax assets	598	158	598	158
Unallocated assets	26,384	18,901	26,384	18,901
Elimination of intragroup balances and profits	(31,278)	(26,975)	(31,278)	(26,975)
Total assets of the Group	150,774	161,995	150,774	161,995
<u>Segment Liabilities</u>				
Biomass materials and related products	82,774	84,843	82,774	84,843
Mattresses and related products	13,116	15,654	13,116	15,654
	95,890	100,497	95,890	100,497
Tax liabilities	673	1,736	673	1,736
Unallocated liabilities	5,433	8,142	5,433	8,142
Elimination of intragroup balances and profits	(30,852)	(26,549)	(30,852)	(26,549)
Total liabilities of the Group	71,144	83,826	71,144	83,826



A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	30.06.2019	30.06.2018	30.06.2019	30.06.2018
	RM'000	RM'000	RM'000	RM'000
Renting of two storey office with single storey detached factory used for mattress production and warehouse	152	78	304	156
Renting of vacant land for placement of portable cabins used for staff accommodation	30	30	60	60

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.



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

B1. ANALYSIS OF PERFORMANCE

Revenue

For the current quarter and financial period ended 30 June 2019, the Group recorded revenue of RM27.43 million and RM51.10 million respectively, representing decrease of approximately RM7.56 million or 21.61% and RM5.94 million or 10.41% respectively as compared to the preceding year corresponding quarter and period.

Current Quarter Under Review/Financial Period Under Review

The moderation of sales performance was primarily attributable to the following factors:

- i. Decrease in sales volume of oil palm EFB fibre, where total quantities sold during the current quarter and financial period under review has reduced by approximately 15.82% and 6.25% respectively as compared to the preceding year corresponding quarter and period. The decrease mainly due to the Group had on 11 December 2018, disposed a wholly-own subsidiary, HK Palm Fibre manufacturer Sdn. Bhd.
- ii. Decrease in average selling price of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre, where total quantities sold during the current quarter and financial period under review has reduced by approximately 6.33% and 24.03% respectively as compared to the preceding year corresponding quarter and period.

However, the moderation of sales performance was partially offset by the increase in sales volume of bio-oil, which has improved approximately 12.76% and 15.73% respectively as compared to the preceding year corresponding quarter and period.

Profit(Loss) Before Tax

Our Group reported a profit before tax of approximately RM0.20 million and RM0.10 million respectively for the current quarter and financial period, representing a decrease of approximately 62.96% and increase of 120.41% respectively as compared to the preceding year corresponding quarter and period.

However, the performance was offset by the decrease in selling and distribution expenses, administrative and other expenses and finance costs compared to the preceding year corresponding quarter and period.

Profit/(Loss) After Tax

Our Group recorded a net profit of approximately RM0.18 million and RM0.42 respectively for the current quarter and financial period, as compared to a net profit of RM0.70 million and net loss RM0.42 on the preceding year corresponding quarter and period, in line with sales and profit and loss explained above.



B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 30.06.2019	Preceding quarter ended 31.03.2019
	RM'000	RM'000
Gain/(Loss) before tax	203	(105)

Our Group recorded a profit before tax of approximately RM0.20 million for the current quarter ended 30 June 2019, as compared to a loss before tax of RM0.11 million. This was primarily due to the following factor:

- (i) Moderation of sales performance mainly due to softer demand from market; and
- (ii) Disposal of subsidiary company HK Palm Fibre Manufacturer Sdn. Bhd.

B3. PROSPECTS

Moving forward, our Group expect the orders for oil palm EFB fibre from China, being the primary market, will experience greater degree of volatility as gradual slowdown in economic growth is expected to continue. Authorities in China have shifted to looser monetary and fiscal policies in response to a more challenging external environment, including heightened trade tensions. They have cut reserve requirements, reduced taxes and fees, increased export tax rebates, and accelerated issuance of special purpose local government bonds to bolster infrastructure spending (*Source: Global Economic Prospects – January 2019, World Bank Group*).

As an attempt to mitigate the gradual slowdown in economic growth of China, our Group is focusing on the market coverage expansion to the rest of the Asia region besides 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.

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 2019 will turn to positive.

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 INCOME

	Current quarter ended 30.06.2019 RM'000	Year-to-date ended 30.06.2019 RM'000
Current tax expense	(29)	(123)
Deferred tax income	5	441
Total tax income	<u>(24)</u>	<u>318</u>

Our Group recorded total tax income of approximately RM318,000 during the current quarter and financial period under review, as compared to the applicable statutory tax rate of 24%, was primarily due to deferred tax asset recognised in relation to the losses incurred by the Group's operating subsidiaries.

B6. STATUS OF CORPORATE PROPOSALS

Proposed Private Placement

Gross Proceeds from public issue of 30,870,000 new Shares in conjunction with the private placement of the Company on 20 December 2018.

As at 30 June 2019, the gross proceeds from public issue had been fully utilised in the following manner:

Purpose	Intended Time frame for Utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Deviation	
				RM'000	%
i. Payment to trade and other payables	Within 12 months	2,575	2,575	-	-
ii. Staff-related costs such as staff salaries, bonuses, statutory contribution and welfare expenses	Within 12 months	858	858	-	-
iii. General administrative and operating expenses such as rental, utilities, telephone and sundry expenses	Within 12 months	858	858	-	-
Total		4,291	4,291	-	-



B7. BORROWINGS

The Group's borrowings as at 30 June 2019 are as follows:

	Short Term (Within 12 months) RM'000	Long Term (> 12 months) RM'000	Total RM'000
<i>Secured and guaranteed</i>			
Bankers' acceptance	11,353	-	11,353
Bank overdrafts	11,345	-	11,345
Hire purchase payables	2,919	3,555	6,474
Term loans	3,797	14,244	18,041
Total Borrowings	29,414	17,799	47,213

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	
	30.06.2019 RM'000	30.06.2018 RM'000	30.06.2019 RM'000	30.06.2018 RM'000
Basic earnings per share				
Profit/(Loss) attributable to equity holders of the parent	177	692	401	(436)
Weighted average number of ordinary shares in issue ('000)	339,570	308,700	339,570	308,700
BEPS (sen)	0.05	0.22	0.12	(0.14)

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 2019.

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 loss before tax comprised the following income/(expense) items:

	Current quarter ended 30.06.2019 RM'000	Year-to-date ended 30.06.2019 RM'000
Interest income	8	19
Other income including investment income	25	134
Interest expense	(791)	(1,614)
Depreciation expenses	(2,318)	(4,630)
Amortisation expenses	(249)	(497)
Bad debts written-off	-	-
Net foreign exchange gain/(loss)	(18)	96
Gain on disposal of property, plant and equipment	60	73
Fair value gain on derivative instruments	17	47
Reversal of impairment of receivables	100	100
Property, plant and equipment written off	(11)	(11)
Provision for doubtful debts and write-off of receivables	-	100
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	-	-

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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 2019, the Group have the following outstanding forward currency contracts:

Type of Derivatives	[---Contract/ Notional Value---]		Fair value
	USD'000	RM'000 equivalent	as at 30.06.2019 RM'000
Forward Foreign Currency Contracts			
- Less than 1 year	950	3,948	22
	950	3,948	22

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 2018 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 gain of approximately RM46,000 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 2019.