



## **HENG HUAT RESOURCES GROUP BERHAD**

(Company No. 969678-D)  
(Incorporated in Malaysia under the Companies Act, 1965)

### **INTERIM FINANCIAL REPORT FOR THE SECOND QUARTER ENDED 30 JUNE 2017**

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

	Individual Quarter		Cumulative Period	
	Current Year Quarter 30.06.2017 <sup>(1)</sup> RM'000	Preceding Year Corresponding Quarter 30.06.2016 RM'000	Current Year Period 30.06.2017 <sup>(1)</sup> RM'000	Preceding Year Corresponding Period 30.06.2016 RM'000
Revenue	28,650	18,798	56,197	39,505
Cost of sales	(18,339)	(11,889)	(36,456)	(24,729)
Gross profit ("GP")	10,311	6,909	19,741	14,776
Other income	15	449	1,210	1,753
Selling and distribution expenses	(5,065)	(3,643)	(10,611)	(7,525)
Administrative and other expenses	(3,073)	(2,518)	(6,836)	(7,247)
Finance costs	(824)	(377)	(1,578)	(682)
Profit before tax	1,364	820	1,926	1,075
Tax expenses	(409)	(48)	(525)	(3)
<b>Profit after tax / Total comprehensive income</b>	<b>955</b>	<b>772</b>	<b>1,401</b>	<b>1,072</b>
<b>Profit for the financial period/ Total comprehensive income attributable to:</b>				
- Owners of Heng Huat	1,030	801	1,521	1,140
- Non-controlling interests	(75)	(29)	(120)	(68)
	<b>955</b>	<b>772</b>	<b>1,401</b>	<b>1,072</b>
<b>Earnings per share attributable to owners of Heng Huat:</b>				
- Basic (sen) <sup>(2)</sup>	0.33	0.26	0.49	0.37
- Diluted (sen) <sup>(2)</sup>	N/A	N/A	N/A	N/A

Notes:

N/A Not applicable.

<sup>(1)</sup> 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 2016 and the accompanying explanatory notes attached to this interim financial report.

<sup>(2)</sup> Kindly refer to **Note B8** for further details.

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

	<b>As at 30.06.2017 <sup>(1)</sup> RM'000 (unaudited)</b>	<b>As at 31.12.2016 RM'000 (audited)</b>
<b>Non-Current Assets</b>		
Property, plant and equipment	107,842	105,373
Intangible assets	4,855	5,457
	<b>112,697</b>	<b>110,830</b>
<b>Current Assets</b>		
Inventories	9,244	7,415
Trade and other receivables	31,020	29,288
Current tax assets	208	381
Cash and cash equivalents	13,006	11,397
	<b>53,478</b>	<b>48,481</b>
<b>TOTAL ASSETS</b>	<b>166,175</b>	<b>159,311</b>
<b>Equity</b>		
Share capital	30,870	30,870
Share premium	5,454	5,454
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	49,304	44,697
	<b>80,443</b>	<b>75,836</b>
Non-controlling interests	501	3,707
<b>Total Equity</b>	<b>80,944</b>	<b>79,543</b>
<b>Non-Current Liabilities</b>		
Borrowings	24,047	25,516
Deferred tax liabilities	941	732
	<b>24,988</b>	<b>26,248</b>
<b>Current Liabilities</b>		
Trade and other payables	23,575	22,682
Derivative liability	43	522
Current tax liabilities	492	123
Borrowings	36,133	30,193
	<b>60,243</b>	<b>53,520</b>
<b>Total Liabilities</b>	<b>85,231</b>	<b>79,768</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>166,175</b>	<b>159,311</b>
<b>NET ASSETS PER SHARE (RM) <sup>(2)</sup></b>	<b>0.261</b>	<b>0.246</b>

Notes:

<sup>(1)</sup> 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 2016 and the accompanying explanatory notes attached to this interim financial report.

<sup>(2)</sup> 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 -----]			<i>Distributable</i>	Total attributable to owners of the Company RM'000	Non- controlling interests RM'000	Total equity RM'000
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000			
At 1 January 2017	30,870	5,454	(5,185)	44,697	<b>75,836</b>	3,707	<b>79,543</b>
Total comprehensive income for the financial period	-	-	-	1,521	<b>1,521</b>	(120)	<b>1,401</b>
Acquisition of non-controlling interests without a change in control	-	-	-	3,086	<b>3,086</b>	(3,086)	-
At 30 June 2017	30,870	5,454	(5,185)	49,304	<b>80,443</b>	501	<b>80,944</b>
At 1 January 2016	30,870	5,454	(5,185)	44,652	<b>75,791</b>	5,255	<b>81,046</b>
Dividend paid to non-controlling shareholder of a subsidiary	-	-	-	-	-	(500)	<b>(500)</b>
Total comprehensive income for the financial period	-	-	-	1,140	<b>1,140</b>	(68)	<b>1,072</b>
At 30 June 2016	30,870	5,454	(5,185)	45,792	<b>76,931</b>	4,687	<b>81,618</b>

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 2016 and the accompanying explanatory notes attached to this interim financial report.



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

	Year-to-date ended	
	30.06.2017 RM'000	30.06.2016 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	1,926	1,075
<u>Adjustments for:</u>		
Amortisation of intangible assets	599	128
Bad debt written-off	73	6
Depreciation of property, plant and equipment	5,518	3,708
Fair value adjustment on derivative instruments	(479)	(38)
(Gain)/Loss on disposal of property, plant and equipment	7	(5)
Intangible assets written-off	3	-
Property, plant and equipment written-off	8	-
Provision of doubtful debts	-	12
Reversal of impairment of receivables	(88)	(366)
Interest expense	1,578	682
Interest income	(39)	(25)
Unrealised loss on foreign exchange	885	1,567
	<hr/>	<hr/>
Operating profit before working capital changes	9,991	6,744
Increase in inventories	(1,829)	(2,848)
(Increase)/Decrease in trade and other receivables	(2,592)	5,908
Increase/(Decrease) in trade and other payables	893	(2,737)
	<hr/>	<hr/>
	6,463	7,067
Tax refund	226	166
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>6,689</b>	<b>7,233</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Development costs incurred	-	(729)
Interest received	39	25
Proceeds from disposal of property, plant and equipment	413	72
Purchase of property, plant and equipment	(7,215)	(13,356)
Changes in fixed deposits pledged with licensed banks	89	(29)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(6,674)</b>	<b>(14,017)</b>
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid to non-controlling shareholders of a subsidiary	-	(500)
Interest paid	(1,578)	(682)
Net drawdown/(repayment) of bankers' acceptance	24	62
Net drawdown/(repayment) of term loans	(1,268)	6,443
Net repayment of hire purchase payables	(1,830)	(2,145)
	<hr/>	<hr/>
<b>Net cash (used in)/from financing activities</b>	<b>(4,652)</b>	<b>3,178</b>
	<hr/>	<hr/>
Net changes in cash and cash equivalents	(4,637)	(3,606)
Effects of foreign exchange	(10)	(46)
Cash and cash equivalents at beginning of the financial period	2,434	4,660
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the financial period</b>	<b>(2,213)</b>	<b>1,008</b>
	<hr/>	<hr/>



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

	Year-to-date ended	
	30.06.2017	30.06.2016
	RM'000	RM'000
Cash and cash equivalents comprise the following:		
Cash and bank balances	10,544	4,666
Fixed deposits pledged to financial institutions	2,462	2,389
	<hr/>	<hr/>
	13,006	7,055
Less: Bank overdraft	(12,757)	(3,658)
Less: Fixed deposits pledged to financial institutions	(2,462)	(2,389)
	<hr/>	<hr/>
	<b>(2,213)</b>	<b>1,008</b>
	<hr/> <hr/>	<hr/> <hr/>

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 2016 and the accompanying explanatory notes attached to this interim financial report.*

Commentary

The negative balance of cash and cash equivalents at the end of the financial period is primarily due to increase in cash outlays for additions of property, plant and equipment in conjunction with the construction of the Group's new production factory at Gua Musang ("Gua Musang Expansion"), a significant portion of which was funded by internally-generated funds.

The prevailing negative net cash position is temporary and is expected to reduce gradually in the foreseeable future.

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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 2016 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 2016.

**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 2016, 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 2017

- Amendments to MFRS 12 (*Annual Improvements to MFRS Standards 2014 – 2016 Cycle*)
- Amendments to MFRS 107 *Disclosure Initiative*
- Amendments to MFRS 112 *Recognition of Deferred Tax Assets for Unrealised Losses*

The adoption of the above MFRS and Amendments to MFRSs did not have any significant financial impact to the Group.



## 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 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] \*\*\*

### Effective for annual periods commencing on or after 1 January 2019

- MFRS 16 *Leases*

### 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 2016 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.





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**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. (*FPE 30 June 2016: 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/ announced to the Bursa Securities.

**A10. CHANGES IN THE COMPOSITION OF THE GROUP**

The Group had, on 26 May 2017, acquired the remaining 50% equity interests in its subsidiary, HK Palm Fibre Manufacturer Sdn Bhd ("HK Palm Fibre"). Upon completion of the acquisition, HK Palm Fibre became a wholly-owned subsidiary of the Group. Relevant details on the acquisition had been announced to the Bursa Securities.

Save for the above, 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 2017.

**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)**

	<b>Current quarter ended</b>		<b>Year-to-date ended</b>	
	<b>30.06.2017</b>	<b>30.06.2016</b>	<b>30.06.2017</b>	<b>30.06.2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b><u>Segment Revenue</u></b>				
Biomass materials and related products	25,341	13,714	49,538	28,442
Mattresses and related products	5,646	5,750	11,186	12,554
	30,987	19,464	60,724	40,996
Elimination of intragroup transactions	(2,337)	(666)	(4,527)	(1,491)
<b>Revenue from external customers</b>	<b>28,650</b>	<b>18,798</b>	<b>56,197</b>	<b>39,505</b>
<b><u>Segment Results</u></b>				
Biomass materials and related products	1,854	669	2,713	754
Mattresses and related products	(29)	94	(79)	259
	1,825	763	2,634	1,013
Unallocated corporate income and expenses (net)	(291)	(203)	(538)	(273)
Elimination of intragroup transactions and profits	(170)	260	(170)	335
<b>Profit before tax of the Group</b>	<b>1,364</b>	<b>820</b>	<b>1,926</b>	<b>1,075</b>
<b><u>Segment Assets</u></b>				
Biomass materials and related products	167,030	118,368	167,030	118,368
Mattresses and related products	16,812	19,605	16,812	19,605
	183,842	137,973	183,842	137,973
Tax assets	208	499	208	499
Unallocated assets	28,747	34,753	28,747	34,753
Elimination of intragroup balances and profits	(46,622)	(34,846)	(46,622)	(34,846)
<b>Total assets of the Group</b>	<b>166,175</b>	<b>138,379</b>	<b>166,175</b>	<b>138,379</b>
<b><u>Segment Liabilities</u></b>				
Biomass materials and related products	107,505	62,830	107,505	62,830
Mattresses and related products	13,931	16,510	13,931	16,510
	121,436	79,340	121,436	79,340
Tax liabilities	1,433	821	1,433	821
Unallocated liabilities	8,582	11,486	8,582	11,486
Elimination of intragroup balances and profits	(46,220)	(34,886)	(46,220)	(34,886)
<b>Total liabilities of the Group</b>	<b>85,231</b>	<b>56,761</b>	<b>85,231</b>	<b>56,761</b>



#### A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	30.06.2017	30.06.2016	30.06.2017	30.06.2016
	RM'000	RM'000	RM'000	RM'000
Purchase of oil palm EFB ^	216	91	319	190
Renting of a single storey office annexed with a single storey detached factory used for oil palm EFB fibre manufacturing	18	18	36	36
Renting of two storey office with single storey detached factory used for mattress production and warehouse	78	78	156	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.



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

**B1. ANALYSIS OF PERFORMANCE**

**Revenue**

The Group's total revenue for the current quarter and financial period ended 30 June 2017 stood at RM28.65 million and RM56.20 million respectively, representing an improvement of RM9.85 million or 52.39% and RM16.69 million or 42.24% respectively as compared to the preceding year corresponding quarter and period.

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 and financial period under review rose to approximately 22,000 metric tonnes and 44,000 metric tonnes, representing an improvement of 38.94% and 40.87% respectively as compared to the preceding year corresponding quarter and period. The increase was in line with the gradual recovery of market demand from China, supported by the enhanced production capacity of our Group following the commencement of new production plant at Gua Musang;
- (ii) Increase in average selling prices of oil palm EFB fibre during the current quarter and financial period review, which has improved by approximately 18% and 16% respectively as compared to the preceding year corresponding quarter and period; and
- (iii) Additional revenue contribution of approximately RM3.38 million and RM5.17 million respectively from sales of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre.

**Profit Level**

Our Group profit before tax for the current quarter and financial period ended 30 June 2017 stood at approximately RM1.36 million and RM1.93 million respectively, representing an improvement of RM0.54 million or 65.85% and RM0.85 million or 78.70% respectively as compared to the preceding year corresponding quarter and period.

The improved profit performance for the current quarter under review, as compared to the preceding year corresponding quarter, was primarily due to increase in gross profit in line with the enhanced sales performance as explained above. The growth in gross profit was, however, partially mitigated by the following:

- Increase in selling and distribution expenses as a result of higher transportation costs, which was primarily due to an overall hike in the rate imposed by the logistics providers and higher quantities of oil palm EFB fibre exported;
- Increase in administrative and other expenses in line with the commencement of operations at the new production plant at Gua Musang; and
- Increase in finance costs as a result of additional borrowings utilised to finance the expansion of new production plant at Gua Musang and for working capital purposes.



## B1. ANALYSIS OF PERFORMANCE (cont'd)

### Profit Level (cont'd)

The improved profit performance for the financial period under review, as compared to the preceding year corresponding period, was primarily due to the following:

- Increase in gross profit in line with the enhanced sales performance as explained above and lower; and
- Decrease in administrative and other expenses, as a result of lower foreign exchange losses recorded.

The positive contribution from the above was, however, partially offset by the following:

- Increase in selling and distribution expenses as a result of higher transportation costs, which was primarily due to an overall hike in the rate imposed by the logistics providers and higher quantities of oil palm EFB fibre exported;
- Increase in finance costs as a result of additional borrowings utilised to finance the expansion of new production plant at Gua Musang and for working capital purposes.

In line with the improved profit before tax, our Group's net profit for the current quarter and financial period ended 30 June 2017 increased to RM0.96 million and RM1.40 million respectively, representing an improvement of 24.68% and 30.84% respectively as compared to the preceding year corresponding quarter and period.

## B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	<b>Current quarter ended 30.06.2017</b>	<b>Preceding quarter ended 31.03.2017</b>
	<b>RM'000</b>	<b>RM'000</b>
Profit before tax	1,364	562

Our Group recorded profit before tax of approximately RM1.36 million for the current quarter ended 30 June 2017, improved by RM0.80 million or 142.70% as compare to the preceding quarter ended 31 March 2017. The improved performance was primarily due to higher gross profit recorded, which was in line with the increase in sales as a result of additional contribution from sales of bio-oil (RM3.38 million in the current quarter under review as compared to RM1.79 million in the preceding quarter).



### B3. PROSPECTS

For the near future, our Group expect the orders for oil palm EFB fibre from China will experience greater degree of volatility due to the prevailing economic uncertainties. 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. Barring any unforeseen circumstances and adverse external economic factors, the Board of Directors is of the view that the Group's financial performance for the financial year ending 31 December 2017 will remain 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 EXPENSES

	<b>Current quarter ended 30.06.2017 RM'000</b>	<b>Year-to-date ended 30.06.2017 RM'000</b>
Current tax expenses	(239)	(316)
Deferred tax expenses	(170)	(209)
Total tax expenses	<u>(409)</u>	<u>(525)</u>
Effective tax rate	<u>29.99%</u>	<u>27.26%</u>

The Group's effective tax rate for the current quarter and financial period under review stood at 29.99% and 27.26% respectively. The prevailing statutory tax rate applicable to the Group is 24%.

The effective tax rate during the current quarter and financial period under review was higher than the applicable statutory tax rate, as a result of additional deferred tax expenses provided upon expiry of the Pioneer Status exemption granted to one of the Group's operating subsidiaries, HK Fibre Sdn Bhd.



## B6. STATUS OF CORPORATE PROPOSALS

### ▪ *Acquisition of biomass co-generation power plant*

On 22 June 2015, the Company had announced that HK Power Sdn Bhd, a wholly-owned subsidiary of the Company, had entered into a contract with Advance Boilers Sdn Bhd for the design, supply, delivery to site, installation and commissioning of one (1) unit of 1,077 electrical kilowatts (eKW) biomass co-generation power plant ("Power Plant") for a cash consideration of RM8,810,000 ("**Proposed Acquisition of Power Plant**").

Relevant details on the Proposed Acquisition of Power Plant has been announced to Bursa Securities on the same date.

The Proposed Acquisition of the Power Plant and its construction have been completed on 24 May 2017.

Save as disclosed above, there is no other corporate proposal announced but not completed as at the date of this announcement.

## B7. BORROWINGS

The Group's borrowings as at 30 June 2017 are as follows:-

	Short Term (Within 12 months) RM'000	Long Term (> 12 months) RM'000	Total RM'000
<b><u>Secured and guaranteed</u></b>			
Bankers' acceptance	15,071	-	15,071
Bank overdrafts	12,757	-	12,757
Hire purchase payables	4,759	7,391	12,150
Term loans	3,546	16,656	20,202
<b>Total Borrowings</b>	<b>36,133</b>	<b>24,047</b>	<b>60,180</b>

All the borrowings are denominated in Ringgit Malaysia (RM).





## B8. EARNINGS PER SHARE

### Basic Earnings per Share ("BEPS")

	<b>Current quarter ended</b>		<b>Year-to-date ended</b>	
	<b>30.06.2017</b>	<b>30.06.2016</b>	<b>30.06.2017</b>	<b>30.06.2016</b>
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>Basic earnings per share</b>				
Profit attributable to equity holders of the parent	1,030	801	1,521	1,140
Weighted average number of ordinary shares in issue ('000)	308,700	308,700	308,700	308,700
BEPS (sen)	0.33	0.26	0.49	0.37

### 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 2017.

## 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 REALISED AND UNREALISED PROFIT/LOSS

The retained earnings of the Group as at 30 June 2017 are analysed as follows:

	<b>As at 30.06.2017 RM'000</b>	<b>As at 31.12.2016 RM'000</b>
The retained earnings of the Company and its subsidiaries:		
- Realised	56,683	55,161
- Unrealised	(1,869)	(1,919)
	54,814	53,242
Add: Consolidation adjustments	(5,510)	(8,545)
<b>Total Group retained earnings as per consolidated financial statements</b>	<b>49,304</b>	<b>44,697</b>



## B11. DISCLOSURE ON SELECTED INCOME/EXPENSE ITEMS

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

	<b>Current quarter ended 30.06.2017 RM'000</b>	<b>Year-to-date ended 30.06.2017 RM'000</b>
Interest income	21	39
Other income including investment income	100	194
Interest expense	(824)	(1,578)
Depreciation expenses	(2,912)	(5,518)
Amortisation expenses	(299)	(599)
Net foreign exchange gain/(loss)	(229)	(475)
Loss on disposal of property, plant and equipment	(7)	(7)
Fair value gain/(loss) on derivative instruments	186	479
Reversal of impairment of receivables	-	88
Provision for doubtful debts and write-off of receivables	-	(73)
Intangible assets written off	(3)	(3)
Property, plant and equipment written off	(8)	(8)
Impairment of assets	-	-
Provision for and write off of inventories	-	-
Gain/(Loss) on disposal of quoted or unquoted investments or properties	-	-
Exceptional items	-	-



## B12. 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 2017, the Group have the following outstanding forward currency contracts:

Maturity Period	[----- Contract Value -----]		Fair value as at 30.06.2017
	USD'000	RM'000 equivalent	RM'000
- By September 2017	50	207	199
- By October 2017	150	631	614
- By November 2017	300	1,276	1,257
	500	2,114	2,070

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.

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

The Group recorded net fair value gain of approximately RM479,000 during the financial period under review, as a result of reversal of derivative liability 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 2017.

There is no change to the policies in relation to the derivatives since the last financial year ended 31 December 2016.