



HENG HUAT RESOURCES GROUP BERHAD

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

INTERIM FINANCIAL REPORT FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2017

<u>CONTENTS</u>	<u>PAGE</u>
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	1
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	3
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	4 – 5
EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134	6 – 11
ADDITIONAL INFORMATION REQUIRED BY THE ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD	12 – 17



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

	Individual Quarter		Cumulative Period	
	Current Year Quarter 31.12.2017 ⁽¹⁾ RM'000	Preceding Year Corresponding Quarter 31.12.2016 RM'000	Current Year Period 31.12.2017 ⁽¹⁾ RM'000	Preceding Year Corresponding Period 31.12.2016 RM'000 (audited)
Revenue	29,704	27,217	115,242	84,575
Cost of sales	(22,128)	(18,574)	(76,390)	(55,232)
Gross profit ("GP")	7,576	8,643	38,852	29,343
Other income	91	248	1,398	2,093
Selling and distribution expenses	(4,899)	(4,866)	(20,751)	(15,897)
Administrative and other expenses	(3,842)	(3,508)	(13,996)	(13,137)
Finance costs	(846)	(640)	(3,259)	(1,701)
(Loss)/Profit before tax	(1,920)	(123)	2,244	701
Tax expenses	(474)	(337)	(1,976)	(614)
(Loss)/Profit after tax / Total comprehensive (loss)/income	(2,394)	(460)	268	87
(Loss)/Profit for the financial year/ Total comprehensive (loss)/income attributable to:				
- Owners of Heng Huat	(2,412)	(555)	367	45
- Non-controlling interests	18	95	(99)	42
	(2,394)	(460)	268	87
(Loss)/ Earnings per share attributable to owners of Heng Huat:				
- Basic (sen) ⁽²⁾	(0.78)	(0.18)	0.12	0.01
- 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 2016 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 31.12.2017 ⁽¹⁾ RM'000 (unaudited)	As at 31.12.2016 RM'000 (audited)
Non-Current Assets		
Property, plant and equipment	105,259	105,373
Intangible assets	4,258	5,457
	109,517	110,830
Current Assets		
Inventories	11,078	7,415
Trade and other receivables	40,025	29,288
Derivative asset	131	-
Current tax assets	233	381
Cash and cash equivalents	9,451	11,397
	60,918	48,481
TOTAL ASSETS	170,435	159,311
Equity		
Share capital	30,870	30,870
Share premium	5,454	5,454
Reorganisation reserve	(5,185)	(5,185)
Retained earnings	48,189	44,697
	79,328	75,836
Non-controlling interests	483	3,707
Total Equity	79,811	79,543
Non-Current Liabilities		
Borrowings	21,656	25,516
Deferred tax liabilities	1,945	732
	23,601	26,248
Current Liabilities		
Trade and other payables	30,271	22,682
Derivative liability	-	522
Current tax liabilities	353	123
Borrowings	36,399	30,193
	67,023	53,520
Total Liabilities	90,624	79,768
TOTAL EQUITY AND LIABILITIES	170,435	159,311
NET ASSETS PER SHARE (RM) ⁽²⁾	0.257	0.246

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 2016 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 -----]			<i>Distributable</i>	Total attributable to owners of the Company	Non- controlling interests	Total equity
	Share capital RM'000	Share premium RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	RM'000	RM'000	RM'000
At 1 January 2017	30,870	5,454	(5,185)	44,697	75,836	3,707	79,543
Total comprehensive income for the financial year	-	-	-	367	367	(99)	268
Acquisition of non-controlling interests without a change in control	-	-	-	3,125	3,125	(3,125)	-
At 31 December 2017	30,870	5,454	(5,185)	48,189	79,328	483	79,811
At 1 January 2016	30,870	5,454	(5,185)	44,652	75,791	5,255	81,046
Dividend paid to non-controlling shareholder of a subsidiary	-	-	-	-	-	(1,590)	(1,590)
Total comprehensive income for the financial year	-	-	-	45	45	42	87
At 31 December 2016	30,870	5,454	(5,185)	44,697	75,836	3,707	79,543

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	
	31.12.2017 RM'000	31.12.2016 RM'000 (audited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	2,244	701
<u>Adjustments for:</u>		
Amortisation of intangible assets	1,197	313
Bad debt written-off	124	58
Depreciation of property, plant and equipment	10,217	7,990
Fair value adjustment on derivative instruments	(653)	414
(Gain) on disposal of property, plant and equipment	(10)	(74)
Intangible assets written-off	3	-
Property, plant and equipment written-off	22	9
Provision(Reversal) of impairment of receivables	229	(373)
Interest expense	3,259	1,701
Interest income	(94)	(79)
Unrealised loss/(gain) on foreign exchange	1,332	(711)
Operating profit before working capital changes	17,870	9,949
(Increase)/ Decrease in inventories	(3,663)	202
(Increase)/Decrease in trade and other receivables	(12,420)	3,528
Increase in trade and other payables	7,589	4,607
	9,376	18,286
Tax paid	(385)	(292)
Net cash from operating activities	8,991	17,994
CASH FLOWS FROM INVESTING ACTIVITIES		
Development costs incurred	(1)	(4,809)
Interest received	94	79
Proceeds from disposal of property, plant and equipment	781	1,656
Purchase of property, plant and equipment	(7,800)	(23,283)
Changes in fixed deposits pledged with licensed banks	148	(190)
Net cash used in investing activities	(6,778)	(26,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid to non-controlling shareholders of a subsidiary	-	(1,590)
Interest paid	(3,259)	(1,701)
Net drawdown of bankers' acceptance	1,563	4,929
Net (repayment)/drawdown of term loans	(2,222)	9,366
Net repayment of hire purchase payables	(5,540)	(4,676)
Net cash (used in) /from financing activities	(9,458)	6,328
Net changes in cash and cash equivalents	(7,245)	(2,225)
Effects of foreign exchange	(2)	-
Cash and cash equivalents at beginning of the financial year	2,434	4,659
Cash and cash equivalents at end of the financial year	(4,813)	(2,434)



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

	Year-to-date ended	
	31.12.2017	31.12.2016
	RM'000	RM'000
		(audited)
Cash and cash equivalents comprise the following:		
Cash and bank balances	7,049	8,847
Fixed deposits pledged to financial institutions	2,402	2,550
	9,451	11,397
Less: Bank overdraft	(11,862)	(6,413)
Less: Fixed deposits pledged to financial institutions	(2,402)	(2,550)
	(4,813)	2,434

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.

[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 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*
- 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 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 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 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.

A5. UNUSUAL ITEMS

A fire had occurred at the Group’s production plant in Gua Musang, Kelantan. The plant belongs to HK Gua Musang Sdn Bhd, a wholly-owned subsidiary of the Company.

The fire started around 1.00 a.m. on 16 November 2017 (Thursday). No one was injured in the incident. The production floor was not severely affected and the assets are covered by insurance. The operations of HK Gua Musang Sdn Bhd has resumed.

The Group has incurred a net loss of RM0.56 million as a result of the fire incident and this has been reflected in the profit or loss of the interim financial report during the current quarter and financial year under review.

The Board will make further announcement whenever there is new development as well as any significant financial impact on the Group.

Relevant announcements have been made to Bursa Securities.

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 year 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 year under review.

A8. DIVIDEND PAID/ DECLARED

The Board of Directors did not recommend any payment of dividend during the current quarter and financial year under review. (FYE 31 December 2016: Nil)



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

There were no material events subsequent to the end of current quarter and financial year 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

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.

The Group had, on 18 September 2017, incorporated a new subsidiary company namely Sabut Kelapa Saujana Setiu Terengganu Sdn Bhd ("SKSSTSB"). Relevant details on the incorporation 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 year 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 31 December 2017.

	As at 31.12.2017 RM'000
Property, plant and equipment	
Approved but not contracted for	-
Contracted but not provided for	2,649
	<u>2,649</u>

13. 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 year 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:



A13. SEGMENT INFORMATION (cont'd)

(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.

	Current quarter ended		Year-to-date ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
<u>Segment Revenue</u>				
Biomass materials and related products	25,464	21,234	101,463	64,197
Mattresses and related products	6,555	6,948	23,041	24,066
	32,019	28,182	124,504	88,263
Elimination of intragroup transactions	(2,315)	(965)	(9,262)	(3,688)
Revenue from external customers	29,704	27,217	115,242	84,575
<u>Segment Results</u>				
Biomass materials and related products	(1,351)	(212)	4,046	1,151
Mattresses and related products	(197)	243	(396)	47
	(1,548)	31	3,650	1,198
Unallocated corporate income and expenses (net)	(372)	321	(1,213)	(430)
Elimination of intragroup transactions and profits	-	(475)	(193)	(67)
Profit before tax of the Group	(1,920)	(123)	2,244	701
<u>Segment Assets</u>				
Biomass materials and related products	161,812	153,637	161,812	153,637
Mattresses and related products	18,106	17,711	18,106	17,711
	179,918	171,348	179,918	171,348
Tax assets	233	381	233	381
Unallocated assets	15,218	24,783	15,218	24,783
Elimination of intragroup balances and profits	(24,934)	(37,201)	(24,934)	(37,201)
Total assets of the Group	170,435	159,311	170,435	159,311
<u>Segment Liabilities</u>				
Biomass materials and related products	89,676	96,983	89,676	96,983
Mattresses and related products	15,545	14,864	15,545	14,864
	105,221	111,847	105,221	111,847
Tax liabilities	2,298	856	2,298	856
Unallocated liabilities	7,614	4,033	7,614	4,033
Elimination of intragroup balances and profits	(24,509)	(36,968)	(24,509)	(36,968)
Total liabilities of the Group	90,624	79,768	90,624	79,768



A14. RELATED PARTY TRANSACTIONS

	Current quarter ended		Year-to-date ended	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
Purchase of oil palm EFB [^]	-	69	319	335
Renting of a single storey office annexed with a single storey detached factory used for oil palm EFB fibre manufacturing [^]	-	18	30	72
Renting of two storey office with single storey detached factory used for mattress production and warehouse	78	78	312	312
Renting of vacant land for placement of portable cabins used for staff accommodation	30	30	120	120

[^] 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.



**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 stood at RM29.70 million, representing an improvement of RM2.48 million or 9.11% as compared to the preceding year corresponding quarter; while the Group's total revenue for the financial year ended 31 December 2017 stood at RM115.24 million, representing an improvement of RM30.66 million or 36.25% as compared to the preceding year.

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 financial year under review improved by 20.06% as compared to the preceding year. 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 year under review, which has improved by approximately 11.72% and 14.78% respectively as compared to the preceding year corresponding quarter and preceding year; and
- (iii) Additional revenue contribution of approximately RM3.35 million and RM12.43 million respectively from sales of bio-oil, a secondary product derived from the manufacturing process of oil palm EFB fibre.

Profit Level

Our Group recorded a loss before tax of RM1.92 million for the current quarter, as compared to a loss before tax of RM0.12 million in the preceding year corresponding quarter. This was primarily attributable to the temporary increase of unit production cost, which resulted in a lower gross profit, as the production output was affected due to the fire at the production plant in Gua Musang, Kelantan.

However, our Group recorded a profit before tax of RM2.24 million for the financial year under review, representing an improvement of RM1.54 million or 220% as compared to the preceding year. The improved profit performance for the financial year under review, as compared to the preceding year, 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 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 administrative and other expenses in line with the commencement of operations at the new production plant at Gua Musang; and



B1. ANALYSIS OF PERFORMANCE (cont'd)

Profit Level (cont'd)

- 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.
- Net loss of RM0.56 million recognised in relation to the fire incident at the production plant in Gua Musang, Kelantan.

Our Group recorded a net loss of RM2.39 million for the current quarter, as compared to a net loss of RM0.46 million in the preceding year corresponding quarter, in line with the loss before tax as explained above.

On the contrary, our Group recorded a net profit of RM0.27 million for the financial year ended 31 December 2017, representing an improvement of RM0.18 million or 200% as compared to the preceding year, in line with the profit before tax as explained above.

B2. VARIATION OF RESULTS AGAINST PRECEDING QUARTER

	Current quarter ended 31.12.2017	Preceding quarter ended 30.09.2017
	RM'000	RM'000
(Loss)/ Profit before tax	<u>(1,920)</u>	<u>2,238</u>

Our Group recorded a loss before tax of RM1.92 million for the current quarter, as compared to a profit before tax of RM2.24 million in the preceding quarter ended 30 September 2017.

The moderation in performance was mainly due to:

- (i) Lower gross profit margin of 25.52%, as compared to the gross profit margin of 39.33% in the preceding quarter. This was primary attributable to the temporary increase in unit production cost, as production output was affected due to the fire incident at the production plant in Gua Musang, Kelantan; and
- (ii) One-off net loss of RM0.56 million as a result of the fire incident at the production plant in Gua Musang, Kelantan.

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 continuing gradual slowdown in economic growth, as monetary policy remains tight and fiscal policy becomes less accommodative (*Source: Global Economic Prospects – January 2018, World Bank Group*).

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.



B3. PROSPECTS (cont'd)

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 financial performance for the financial year ending 31 December 2018 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

	Current quarter ended 31.12.2017 RM'000	Year-to-date ended 31.12.2017 RM'000
Current tax expenses	61	(763)
Deferred tax expenses	(535)	(1,213)
Total tax expenses	(474)	(1,976)
Effective tax rate	24.69%	88.06%

The Group's effective tax rate for the current quarter and financial year under review stood at 24.69% and 88.06% respectively. The prevailing statutory tax rate applicable to the Group is 24%.

The effective tax rate during the current quarter and financial year under review was higher than the applicable statutory tax rate, as a result of:

- (i) additional current tax and deferred tax expenses provided upon expiry of the Pioneer Status exemption granted to one of the Group's operating subsidiaries, HK Fibre Sdn Bhd; and
- (ii) additional provision made for deferred tax liabilities in view of Pioneer Status exemption granted to HK Kitaran Sdn Bhd will be expiring on 30 June 2020.



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.

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 31 December 2017 are as follows:-

	Short Term (Within 12 months) RM'000	Long Term (> 12 months) RM'000	Total RM'000
<u>Secured and guaranteed</u>			
Bankers' acceptance	16,610	-	16,610
Bank overdrafts	11,862	-	11,862
Hire purchase payables	4,245	6,089	10,334
Term loans	3,682	15,567	19,249
Total Borrowings	36,399	21,656	58,055

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	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	RM'000	RM'000	RM'000	RM'000
Basic earnings per share				
(Loss)/ Profit attributable to equity holders of the parent	(2,412)	(555)	367	45
Weighted average number of ordinary shares in issue ('000)	308,700	308,700	308,700	308,700
BEPS (sen)	(0.78)	(0.18)	0.12	0.01

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 31 December 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 SELECTED INCOME/EXPENSE ITEMS

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

	Current quarter ended	Year-to-date ended
	31.12.2017	31.12.2017
	RM'000	RM'000
Interest income	14	94
Other income including investment income	97	391
Interest expense	(846)	(3,259)
Depreciation expenses	(2,548)	(10,217)
Amortisation expenses	(299)	(1,197)
Net foreign exchange loss	(953)	(1,479)
Gain on disposal of property, plant and equipment	17	10
Fair value gain on derivative instruments	118	653
Reversal of impairment of receivables	6	(367)
Provision for doubtful debts and write-off of receivables	-	(124)
Intangible assets written off	-	(3)
Property, plant and equipment written off	(14)	(22)
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 31 December 2017, the Group have the following outstanding forward currency contracts:

Type of Derivatives	[----Contract/ Notional Value-----]		Fair value as at 31.12.2017
	USD'000	RM'000 equivalent	RM'000
Forward Foreign Currency Contracts			
- Less than 1 year	840	3,549	3,680
	840	3,549	3,680

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 2016 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 RM653,000 during the financial year 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 31 December 2017.