BIOALPHA HOLDINGS BERHAD

(Company No. 949536-X)

("BHB" OR THE "COMPANY")

INTERIM FINANCIAL REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018

Contents **Page**

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018

	<--------- *Individual Quarter* --------->			<--------- *Cumulative Quarter* --------->		
	30 Jun 2018 RM'000	**30 Jun 2017 RM'000**	**Changes**	**30 Jun 2018 RM'000**	**30 Jun 2017 RM'000**	**Changes**
Revenue	19,546	13,157	49%	32,008	21,788	47%
Cost of sales	(11,260)	(7,176)		(18,835)	(12,840)	
Gross profit	8,286	5,981	39%	13,173	8,948	47%
Other income	775	1,439		1,201	2,748	
Administrative expenses	(4,931)	(4,865)		(9,565)	(11,148)	
Profit from operations	4,130	2,555	62%	4,809	548	778%
Finance costs	(44)	(49)		(89)	(96)	
Profit before tax	4,086	2,506	63%	4,720	452	944%
Taxation	(80)	(50)		(111)	(80)	
Net profit for the financial period, representing total comprehensive income for the financial period	4,006	2,456	63%	4,609	372	1139%
Net profit for the financial period attributable to:						
- Owners of the parent	4,141	2,469	68%	4,781	514	830%
- Non-controlling interests	(135)	(13)		(172)	(142)	
	4,006	2,456		4,609	372	
Weighted average number of ordinary shares ('000)	809,399	802,378		809,399	768,582	
Earnings per share attributable to owners of the parent (sen):						
- Basic	0.512	0.308		0.591	0.067	
- Diluted	0.434	N/A		0.502	N/A	

Notes:

*The unaudited condensed consolidated statement of comprehensive income should be read in conjunction with the Audited Financial Statements of BHB for the financial year ended ("**FYE**") 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.*

N/A Not applicable.

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

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

	Unaudited As at 30 Jun 2018 RM'000	Audited As at 31 Dec 2017 RM'000
NON-CURRENT ASSETS		
Property, plant and equipment	43,983	37,238
Development expenditures	29,697	30,532
Goodwill	5,334	5,334
	79,014	73,104
CURRENT ASSETS		
Biological assets	329	189
Inventories	8,886	7,590
Trade receivables	31,229	31,726
Other receivables	19,605	14,858
Tax recoverable	626	625
Other investments	11	11
Fixed deposits with licensed banks	13,503	18,743
Cash and bank balances	4,983	6,972
	79,172	80,714
TOTAL ASSETS	**158,186**	**153,818**
EQUITY		
Share capital	87,528	87,454
Retained earnings	52,542	47,982
Equity attributable to owners of the parent	140,070	135,436
Non-controlling interests	(975)	(803)
TOTAL EQUITY	139,095	134,633
NON-CURRENT LIABILITIES		
Finance lease payables	404	475
Bank borrowings	4,372	2,617
Deferred tax liabilities	4,057	4,057
	8,833	7,149

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018 (CONT'D)

	Unaudited As at 30 Jun 2018 RM'000	Audited As at 31 Dec 2017 RM'000
CURRENT LIABILITIES		
Trade payables	4,152	4,879
Other payables	4,635	6,459
Finance lease payables	149	172
Bank borrowings	1,322	523
Tax payable	-	3
	10,258	12,036
TOTAL LIABILITIES	19,091	19,185
TOTAL EQUITY AND LIABILITIES	**158,186**	**153,818**
NET ASSETS PER SHARE (sen)	17.30 (1)	16.74 (2)

Notes:
(1) Based on 809,499,132 ordinary shares in BHB as at 30 June 2018.
(2) Based on 809,249,132 ordinary shares in BHB as at 31 December 2017.

The unaudited condensed consolidated statement of financial position should be read in conjunction with the Audited Financial Statements of BHB for the FYE 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018

	<------	------	------	Non-Distributable	------	------	------>	Distributable			
	Share Capital RM'000	Share Premium RM'000	Warrant Reserve RM'000	Share issuance Scheme ("SIS") Option Reserve RM'000	Merger Deficits RM'000	Foreign Currency Translation Reserve RM'000	Other Reserve RM'000	Retained Earnings RM'000	Total RM'000	Non-Controlling Interests RM'000	Total Equity RM'000
Balance as at 1 January 2017	33,333	24,725	-	-	(4,969)	(27)	-	44,929	97,991	(595)	97,396
Net profit for the financial year, representing total comprehensive income for the financial year	-	-	-	-	-	-	-	7,865	7,865	(388)	7,477
Foreign exchange translation reserve	-	-	-	-	-	26	-	-	26	-	26
Total comprehensive income	-	-	-	-	-	26	-	7,865	7,891	(388)	7,503
Transaction with owners											
Issuance of rights issue with detachable free Warrants	6,667	20,000	16,853	-	-	-	(16,853)	-	26,667	-	26,667
Exercises of Warrants	-*	-	-*	-	-	-	-*	-	-*	-	-*
Share options granted under SIS	-	-	-	1,800	-	-	-	-	1,800	-	1,800
Exercise of SIS	2,729	-	-	(833)	-	-	-	-	1,896	-	1,896
Dividends to owners of company	-	-	-	-	-	-	-	(809)	(809)	-	(809)
Net change of non-controlling interests	-	-	-	-	-	-	-	-	-	180	180
Total transactions with owners	9,396	20,000	16,853	967	-	-	(16,853)	(809)	29,554	180	29,734
Transfer in accordance with Section 618(2) of the Companies Act, 2016	44,725	(44,725)	-	-	-	-	-	-	-	-	-
Balance as at 31 December 2017	**87,454**	**-**	**16,853**	**967**	**(4,969)**	**(1)**	**(16,853)**	**51,985**	**135,436**	**(803)**	**134,633**

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

	<------------ Non-Distributable					------------>	Distributable			
	Share Capital RM'000	Warrant Reserve RM'000	SIS Option Reserve RM'000	Merger Deficits RM'000	Foreign Currency Translation Reserve RM'000	Other Reserve RM'000	Retained Earnings RM'000	Total RM'000	Non-Controlling Interests RM'000	Total Equity RM'000
Balance as at 1 January 2018	87,454	16,853	967	(4,969)	(1)	(16,853)	51,985	135,436	(803)	134,633
Net profit for the financial period, representing total comprehensive income for the financial period	-	-	-	-	-	-	4,609	4,609	-	4,609
Foreign currency translation reserves	-	-	-	-	(205)	-	-	(205)	-	(205)
Total comprehensive income	-	-	-	-	(205)	-	4,609	4,404	-	4,404
Transaction with owners										
Exercises of SIS	74	-	(23)	-	-	-	-	51	-	51
Net change of non-controlling interests	-	-	-	-	-	-	179	179	(172)	7
Total transactions with owners	74	-	(23)	-	-	-	179	230	(172)	58
Balance as at 30 June 2018	**87,528**	**16,853**	**944**	**(4,969)**	**(206)**	**(16,853)**	**56,773**	**140,070**	**(975)**	**139,095**

Note:
The unaudited condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements of BHB for the FYE 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

** Amount is negligible as it is less than RM1,000.*

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018

	Current Period to date 30 Jun 2018 RM'000	**Preceding Corresponding Period to date 30 Jun 2017 RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	4,720	452
Adjustments for:		
Amortisation of development expenditures	1,707	1,472
Amortisation of biological assets and bearer plant	16	18
Depreciation of property, plant and equipment	2,545	2,071
Fair value gain on biological assets	(82)	-
Fair value gain on plantation expenditure	(181)	-
Gain on disposal of property, plant and equipment	-	(57)
Grant income	(193)	(107)
Fair value loss on share-based payment	-	1,800
Interest expense	87	49
Interest income	(283)	(220)
Property, plant and equipment written off	-	5
Rental income	(47)	(19)
Reversal of impairment losses on trade receivables	(5)	-
Unrealised loss / (gain) on foreign exchange	64	(64)
Operating profit before working capital changes	8,348	5,400
Changes in working capital:		
Biological assets	(69)	86
Inventories	(1,296)	20
Trade receivables	502	1,836
Other receivables	(2,186)	7,076
Trade payables	(727)	42
Other payables	(1,672)	(3,114)
Director	-	(9)
Cash generated from operations	2,900	11,337

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

	Current Period to date 30 Jun 2018 RM'000	Preceding Corresponding Period to date 30 Jun 2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES (CONT'D)		
Grant received	193	107
Interest paid	(87)	(5)
Interest received	273	220
Rental received	47	19
Tax paid	(176)	(165)
Tax refund	64	165
NET CASH FROM OPERATING ACTIVITIES	3,214	11,678
CASH FLOWS FROM INVESTING ACTIVITIES		
Addition in research and development expenditures	(872)	(10,398)
Placement of fixed deposit	(100)	-
Purchase of property, plant and equipment	(6,260)	(6,458)
Proceeds from disposal of property, plant and equipment	42	-
Deposits paid for purchase of property, plant and equipment	(2,102)	-
NET CASH USED IN INVESTING ACTIVITIES	(9,292)	(16,856)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(809)	-
Increased in fixed deposit pledged	10	-
Proceeds from issue of share capital	51	27,917
Repayment of finance lease payables	(94)	(101)
Repayment of term loans	(446)	(451)
NET CASH (USED IN) / FROM FINANCING ACTIVITIES	(1,288)	27,365

BIOALPHA HOLDINGS BERHAD (Company No. 949536-X)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

	Current Period to date 30 Jun 2018 RM'000	Preceding Corresponding Period to date 30 Jun 2017 RM'000
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(7,366)	22,187
EFFECT OF EXCHANGE TRANSLATION DIFFERENCES	37	462
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR	24,812	5,045
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	17,483	27,694
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD COMPRISES:		
Cash and bank balances	4,983	2,550
Fixed deposits with licensed banks	13,503	26,029
	18,486	28,579
Less: Fixed deposits pledged with licensed banks	(1,003)	(885)
	17,483	27,694

Note:
The unaudited condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements of BHB for the FYE 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

A. EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018

A1. Accounting policies and methods of computation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the Malaysian Financial Reporting Standards ("**MFRS**") 134: Interim Financial Reporting, Rule 9.22 and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("**Bursa Securities**") ("**Listing Requirements**").

The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the FYE 31 December 2017 and the accompanying explanatory notes attached to this interim financial report.

The accounting policies and methods of computation adopted by the Company and its subsidiaries ("**Group**") in these unaudited condensed consolidated interim financial statements are consistent with those adopted in the preparation of the audited consolidated financial statements of the Company for the FYE 31 December 2017, except for the adoption of the following:

MFRS and IC Interpretations (Including The Consequential Amendments)		**Effective dates for financial periods beginning on or after**
MFRS 9	Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
MFRS 140	Transfers of Investment Property	1 January 2018
MFRS 16	Leases	1 January 2019
IC Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
MFRS 17	Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice

A. EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

A1. Accounting policies and methods of computation (cont'd)

The initial application of the abovementioned MFRSs are not expected to have any significant impacts on the financial statements of the Group and the Company except as mentioned below:

<u>MFRS 9 *Financial Instruments* (IFRS 9 issued by IASB in July 2014)</u>

MFRS 9 (IFRS 9 issued by IASB in July 2014) replaces earlier versions of MFRS 9 and introduces a package of improvements which includes a classification and measurement model, a single forward looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. MFRS 9 when effective will replace MFRS 139 *Financial Instruments: Recognition and Measurement.*

MFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income without subsequent recycling to profit or loss. There is now a new expected credit losses model that replaces the incurred loss impairment model used in MFRS 139. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. MFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under MFRS 139.

The adoption of MFRS 9 will result in a change in accounting policy. The Group is currently examining the financial impact of adopting MFRS 9.

<u>MFRS 15 *Revenue from Contracts with Customers*</u>

MFRS 15 replaces MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and related IC Interpretations. The Group is in the process of assessing the impact of this Standard. The Standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

A. EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

A1. Accounting policies and methods of computation (cont'd)

The initial application of the abovementioned MFRSs are not expected to have any significant impacts on the financial statements of the Group and of the Company except as mentioned below (cont'd):

<u>MFRS 16 *Leases*</u>

MFRS 16, which upon the effective date will supersede MFRS 117 *Leases*, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under MFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, MFRS 117.

In respect of the lessor accounting, MFRS 16 substantially carries forward the lessor accounting requirements in MFRS 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Directors of the Company will assess the impact of the application of MFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of MFRS 16 until the Group performs a detailed review.

A2. Auditors' report of preceding annual financial statements

There was no qualification to the audited consolidated financial statements of the Company for the FYE 31 December 2017.

A3. Seasonal or cyclical factors

The Group's business activities typically peak in the third (3rd) and fourth (4th) quarter of the calendar year in conjunction with year-end festive promotional activities by its customers.

A4. Unusual items

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

A. EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

A5. Material changes in estimates

There were no material changes in estimates of amounts reported in prior interim periods or prior year that would have a material effect on the current quarter's results.

A6. Debt and equity securities

There were no issuance, cancellation, repurchase, resale and repayment of debt for the current financial period-to-date.

A7. Segmental information

The Group's revenue based on the geographical location of its customers is presented as follows:

	Current quarter ended		Year-to-date	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Malaysia	13,705	7,076	22,793	11,653
Indonesia	4,077	4,246	6,474	6,828
China	1,764	1,835	2,741	3,307
Total	19,546	13,157	32,008	21,788

The Group's revenue based on the activities is presented as follows:

	Current quarter ended		Year-to-date	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Manufacturing & sale of finished health supplement products	12,646	9,407	19,134	14,224
Retail pharmacies	6,900	3,750	12,874	7,564
Total	19,546	13,157	32,008	21,788

A. EXPLANATORY NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SECOND (2nd) QUARTER ENDED 30 JUNE 2018 (CONT'D)

A8. Valuation of property, plant and equipment

The Group has not carried out any valuation of its property, plant and equipment in the current quarter.

A9. Capital commitments

	Current quarter ended 30 Jun 2018 RM'000	Financial period-to-date 30 Jun 2018 RM'000
Authorised and contracted for:		
Purchase of property, plant and equipment	-	4,500

A10. Changes in the composition of the Group

There were no changes in the composition of the Group for the current quarter.

A11. Contingent liabilities

	Current quarter ended 30 Jun 2018 RM'000	Financial period-to-date 30 Jun 2018 RM'000
Unsecured:		
Corporate guarantees given to the licensed financial institution for credit facility granted to a subsidiary company	3,000	3,000

A12. Material events subsequent to the end of the quarter

There were no other material events subsequent to the end of the current quarter and financial period-to-date that have not been reflected in this interim financial report.

A13. Related party transactions

There were no additional related party transaction entered into with related parties during the current financial quarter.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS

B1. Analysis of performance

The Group's revenue for the current quarter was RM19.55 million as compared to RM13.16 million in the preceding quarter and its cumulative revenue for the financial period ended **("FPE")** 30 June 2018 was RM32.01 million as compared to RM21.79 million in the preceding corresponding quarter FPE 30 June 2017, representing an increase of RM6.39 million or 48.56% and RM10.22 million or 46.90%. Both the manufacturing and retail pharmacy divisions contributed to the growth in revenue. Further analyses of the performance of the Group's operating segments are as follows:

(i) Manufacturing and sale of finished health supplement products

The revenue generated from this segment for the current quarter was RM12.65 million as compared to RM9.41 million in the preceding quarter and its cumulative revenue for the FPE 30 June 2018 was RM19.13 million as compared to RM14.22 million in the preceding corresponding quarter FPE 30 June 2017, representing an increase of RM3.24 million or 34.43% and RM4.91 million or 34.53%.

The higher revenue was mainly due to increase in sales of health supplement products, particularly in Malaysia. Domestic sales for the current quarter increased from RM7.08 million to RM13.71 million or 93.64% and for the FPE 30 June 2018 increased from RM11.65 million to RM22.79 million or 95.62% as compared to the preceding corresponding quarter, attributed to surge in orders for new and existing products from current clientele. There was also contribution from new customer during the quarter under review.

Export of health products to China and Indonesia, meanwhile, remained stable during the quarter under review.

(ii) Retail pharmacies

The revenue generated from this segment for the current quarter was RM6.90 million as compared to RM3.75 million in the preceding quarter and for the FPE 30 June 2018 was RM12.87 million as compared to RM7.56 million in the preceding corresponding quarter FPE 30 June 2017, representing an increase of RM3.15 million or 84.00% and RM5.31 million or 70.24%. The improvement stemmed from higher sales registered at the pharmacy outlets.

Gross profit margin was maintained at 41.16% in the FPE 30 June 2018 in comparison to 41.07% in the preceding corresponding quarter FPE 30 June 2017 due to favourable product mix.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B1. Analysis of performance (cont'd)

Net profit attributable to the owners of the parent for the current quarter was RM4.14 million and for the FPE 30 June 2018 was RM4.78 million. By comparison, the Group recorded a net profit of RM2.46 million in the preceding quarter and RM0.37 million in the preceding corresponding quarter.

Comparison with immediate preceding quarter's results

The revenue for the second (2nd) quarter ended 30 June 2018 increased by RM6.39 million or 48.56% from RM13.16 million to RM19.55 million as compared to the first (1st) quarter ended 31 March 2018.

The Group's business activities typically peak in the third (3rd) and fourth (4th) quarter of the calendar year in conjunction with year-end festive promotional activities by its customers.

The profit before tax **("PBT")** for the second (2nd) quarter ended 30 June 2018 has increased by RM1.58 million or 62.95% to RM4.09 million from RM2.51 million in the first (1st) quarter ended 31 March 2018.

B2. Prospects for the financial year ending 31 December 2018

The Group remains positive on the outlook for the domestic market as it expects both the manufacturing segment and retail pharmacy business to continue doing well in 2018. For the manufacturing segment, growth is driven by an increase in demand from existing Original Design Manufacturing **("ODM")** customers as well as new ODM customers secured during the year. The Group's existing customers, specifically in the Malaysian market, has been experiencing uptick in sales since 2017, and this has continued into the first half of 2018. The growth momentum is expected to prevail going into the second half of 2018, reflecting solid demand for products formulated by the research and development **("R&D")** team at BHB. Additionally, the Group is also in the midst of discussions with several potential clients to grow its customer base and product offerings.

Another growth factor for manufacturing segment involves the Group's strategy to increase revenue from house brand products by leveraging on its own retail pharmacy chain. The Group rolled out 7 new products in 2017 to enhance the product offerings at the Constant pharmacy outlets and plans to launch more new house brand products in 2018 as these carry higher profit margins. Overall, the Group's outlook on its local manufacturing segment is upbeat, underpinned by increase in ODM sales and higher proportion of house brand sales through the retail arm's contributions.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B2. Prospects for the financial year ending 31 December 2018 (cont'd)

As for the retail pharmacy business, the Group continues its efforts in strengthening the presence of its Constant pharmacies via franchising and prospective acquisition exercise. The Group's expansion strategy focuses on opening new outlets in locations outside the Klang Valley, where the competition is less stiff and Constant pharmacies can offer better value-added services such as free consultation, free basic check-ups and special discounts on member days. The Group is currently in talks with several prospective franchisees for the opening of new Constant pharmacy outlets in Perak, Kelantan, Terengganu and Johor, being the target markets. At the same time, the Group is also constantly exploring opportunities for acquisition to fast track its retail pharmacy chain growth.

Additionally, the expansion of the Group's retail pharmacy business will be driven by its e-Constant initiative, an online virtual e-commerce store with referral rewards programme for cooperative members, which the Group launched in 2017. Promotional and marketing activities are ongoing to sign up more cooperative members to operate the virtual stores.

In China, the Group continues to sell its health supplement products in the Southern part of China (such as Guangzhou and Shenzhen) via the appointed distributors. As for the new target market comprising Muslim-majority provinces – Xinjiang, Qinghai, Shaanxi and Gansu, the Group has already appointed distributors in these respective provinces and are working closely with them to promote Bioalpha's Halal certified products. We are optimistic on the prospect of this new segment although we are also cognizant that it would take time to educate the consumers and develop the market. As of to-date, the Group has introduced 5 new products for this market.

For its Indonesian market, the Group has put in place a contract manufacturing arrangement with a local Indonesian business partner, where the partner's facility, located in Kampar, Indonesia, will produce and manufacture functional food and health supplement products for Bioalpha on an exclusive basis. Through this facility, the Group expects to introduce new products to the market at a faster pace as it shortens the otherwise lengthy registration process. As a result, the Group expects revenue from Indonesia to increase gradually over time.

On the agriculture side, the Phase II land clearing activities at the 879.5-acre of land in Pasir Raja, Dungun, Terengganu is currently ongoing. The Group will plant herbs such as Tongkat Ali, Kacip Fatimah, Betik Sekaki, Lada Hitam, Durian Belanda, Pokok Kari, Mas Cotek and Serai, which are high in demand. The Group targets to clear 200 acres of the land in Pasir Raja, Dungun by end of 2018. With more herbs reaching maturity stage in 2018 from both Pasir Raja and Desaru Herbal Parks coupled with the overall increase in planted acreage, the Group expects to harvest greater tonnage of raw fresh herbs in 2018 by comparison to 2017.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B2. Prospects for the financial year ending 31 December 2018 (cont'd)

As for the development of botanical drugs, the Group is in the process of making Investigational New Drug Application for clinical trials on human beings.

In view of the aforementioned growth prospects across the business divisions, the Board of Directors of the Company **("Board")** is optimistic on the Group's performance for the financial year ending 31 December 2018.

B3. Profit forecast or profit guarantee

The Group has not issued any profit forecast or profit guarantee in any public documents.

B4. Foreign Exchange Exposure / Hedging policy

The Group is exposed to foreign currency risk on transactions that are denominated in currencies other than the respective functional currencies of Group entities. The currencies giving rise to this risk are United States Dollar **("USD")**.

The Group have not entered into any derivative instruments for hedging or trading purposes as the net exposure to foreign currency risk is not significant. However, the exposure to foreign currency risk is monitored from time to time by management.

B5. Taxation

	Current quarter ended		Financial period-to-date	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Tax expense recognised in profit or loss:				
- Current tax provision	80	50	111	80
Effective tax rate (%)	1.96	2.00	2.35	3.19

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B5. Taxation (cont'd)

Bioalpha R&D Sdn Bhd ("**BRDSB**"), a wholly-owned subsidiary of the Group, was awarded BioNexus Status by the Malaysian Bioeconomy Development Corporation Sdn Bhd, which allows BRDSB to enjoy 100% tax exemption on income from qualifying activities for a period of ten (10) years ending 30 June 2018 and 20% concessionary tax rate on statutory income (10) years ending 2028 upon expiry of the tax exemption period, subject to the approval from the relevant authorities.

Bioalpha East Coast Agro Sdn Bhd ("**BECASB**"), another wholly-owned subsidiary of the Group, was awarded Pioneer Status by the Malaysian Investment Development Authority, which allows BECASB to enjoy 100% tax exemption on income after commercial production date is determined by the relevant authorities for a period of ten (10) years.

Meanwhile, the Group's other subsidiaries are taxed at the statutory rate of 24% on their chargeable incomes.

B6. Status of corporate proposals and utilisation of proceeds

(i) Utilisation of proceeds

On 10 January 2017, the Company completed the renounceable Rights Issue of 133,333,131 Rights Share(s) together with 133,333,131 Warrants at an issue price of RM0.20 on the basis of 1 Rights Share for every 5 Bioalpha Shares held together with 1 Warrant for every 1 Rights Share subscribed. The Right Share(s) with Warrants were listed and quoted on the ACE Market of Bursa Securities.

The status of utilisation of the proceeds of approximately RM26.67 million is as follow:

No.	Purpose	Approved Utilisation RM'000	Actual Utilisation RM'000	Balance RM'000	Intended time Frame for Utilisation (from 10 January 2017)
(a)	Production of new products	13,500	(13,500)	-	Within 18 months
(b)	Capital expenditure	3,500	(3,500)	-	Within 18 months
(c)	Expansion of agriculture business operations	8,500	(8,500)	-	Within 18 months
(d)	Working capital	512	(512)	-	Within 6 months
(e)	Estimated expenses	655	(655)	-	Within 1 month
	Total	26,667	(26,667)	-	

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B7. Trade receivables

	30 Jun 2018 RM'000
Trade receivables	31,720
Less: Accumulated impairment losses	(491)
	31,229

The Group's normal trade credit terms ranged from 30 to 180 days. Other credit terms are assessed and approved on a case to case basis. Trade receivables are recognised at their original invoice amounts which represent their fair value on initial recognition.

	30 Jun 2018 RM'000
Neither past due not impaired	11,149
Past due but not impaired:	
Less than 30 days	5,938
31 to 60 days	1,263
61 to 90 days	1,095
More than 90 days	11,784
	20,080
	31,229
Impaired	491
	31,720

Trade receivables of the Group that are individually assessed to be impaired amounting to RM0.42 million, related to customers that are in financial difficulties. These balances are expected to be recovered through the debts recovery process.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B8. Borrowings

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

	Short term RM'000	Long term RM'000	Total RM'000
Secured			
Finance leases	149	404	553
Term loans	1,322	4,372	5,694
Total bank borrowings	1,471	4,776	6,247

	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Total bank borrowings	6,247	3,520
Total equity	139,095	127,469
Gearing ratio (times)	0.04	0.03

Weighted average interest rate of term loans and finance leases are 4.98% and 2.38%, and are subject to the floating interest rate and fixed interest rate, respectively.

B9. 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 is not aware of any other proceedings pending or threatened or of any fact likely to give rise to any other proceedings.

B10. Dividends

On 8 January 2018, the Board has declared and paid a first interim single-tier dividend of RM0.001 per ordinary share on 809,249,720 ordinary shares, amounting to RM809,249.72 in respect of financial year ending 31 December 2017.

The Board has recommended to declare a first interim single-tier dividend of RM0.0011 per ordinary share in respect of financial year ending 31 December 2018 during the FPE 30 June 2018 *(FPE 30 June 2017: Nil)*.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B11. Earnings per share

The basic earnings per share is calculated as follows:

	Current quarter ended		Financial period-to-date	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Net profit attributable to owners of the parent	4,141	2,469	4,781	514
Weighted average number of ordinary shares in issue ('000)	809,399	802,378	809,399	768,582
Basic earnings / (loss) per share (sen)	0.512	0.308	0.591	0.067

The diluted earnings per share is calculated as follows:

	Current quarter ended		Financial period-to-date	
	30 Jun 2018 RM'000	30 Jun 2017 RM'000	30 Jun 2018 RM'000	30 Jun 2017 RM'000
Net profit / (loss) attributable to owners of the parent	4,141	2,469	4,781	514
Weighted average number of ordinary shares in issue ('000)	953,232	802,378	953,232	768,582
Diluted earnings per share (sen)	0.434	-	0.502	-

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B12. Disclosure on selected expense/(income) items as required by the Listing Requirements

Included in PBT are the following expense/(income) items:

	<--Individual Quarter-->		*<--Cumulative Quarter-->*	
	30 Jun 2018 RM'000	**30 Jun 2017 RM'000**	**30 Jun 2018 RM'000**	**30 Jun 2017 RM'000**
Depreciation and amortisation expenses	2,036	1,892	4,268	3,543
Foreign exchange loss / (gain)				
- Realised	510	13	510	(106)
- Unrealised	2	787	64	1,165
Fair value gain				
- Biological assets	(118)	-	(82)	-
- Plantation expenditure	(80)	-	(181)	-
- Share-based payment	-	-	-	1,800
Grant expenses	21	-	21	-
Grant income	(107)	(107)	(214)	(206)
Interest expenses	43	49	87	96
Interest income	(232)	(220)	(283)	(453)
Property, plant and equipment written off	-	-	-	5
Reversal of impairment losses on trade receivables	(2)	-	(5)	-
<u>Other income:</u>				
Advertisement and promotion income	(55)	-	(187)	-
Management fee	(308)	(186)	(400)	(346)
Rental income	(25)	(9)	(47)	(18)

There was no provision for inventories, gain or loss on disposal of quoted and unquoted investments or properties, impairment of assets, gain or loss on derivatives and exceptional items for the current quarter and financial period-to-date.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS (CONT'D)

B13. Disclosure of realised and unrealised profits

The breakdown of the retained earnings of the Group as at 30 June 2018 into realised and unrealised profits is as follows:

	As at 30 June 2018 RM'000	As at 30 June 2017 RM'000
Retained earnings of the Group:		
- Realised	54,504	44,916
- Unrealised	(64)	2,679
Total	54,440	47,595
Add: Consolidation adjustments	(1,898)	(2,151)
Total retained earnings of the Group	52,542	45,444

C. AUTHORISATION FOR ISSUE

The interim financial report was authorised for issue by the Board in accordance with a resolution of the Board dated 23 August 2018.

By Order of the Board,

Tan Tong Lang (MAICSA 7045482)
Chong Voon Wah (MAICSA 7055003)
Company Secretaries

Kuala Lumpur

Dated: 23 August 2018