

GOLDEN PHAROS BERHAD (Company No. 152205-W)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

	Note	Current quarter 3 months ended		Cumulative quarter 6 months ended	
		30.06.2018	30.06.2017	30.06.2018	30.06.2017
		Unaudited RM'000	Unaudited RM'000	Unaudited RM'000	Unaudited RM'000
Revenue		17,786	15,510	33,680	23,933
Cost of sales		<u>(13,521)</u>	<u>(13,869)</u>	<u>(24,382)</u>	<u>(21,819)</u>
Gross profit		4,265	1,641	9,298	2,114
Other operating income		45	93	280	204
Administrative expenses		(3,691)	(2,847)	(7,416)	(6,282)
Other operating expenses		(458)	(530)	(886)	(1,080)
Operating profit/(loss)		<u>161</u>	<u>(1,643)</u>	<u>1,276</u>	<u>(5,044)</u>
Finance costs		<u>(28)</u>	<u>(44)</u>	<u>(54)</u>	<u>(75)</u>
Profit/(loss) before taxation	7	133	(1,687)	1,222	(5,119)
Income tax (expense)/benefit	8	<u>(786)</u>	<u>178</u>	<u>(865)</u>	<u>340</u>
(Loss)/profit before taxation		<u>(653)</u>	<u>(1,509)</u>	<u>357</u>	<u>(4,779)</u>
(Loss)/profit for the period attributable to:					
Owners of the parent		(652)	(1,389)	356	(4,571)
Non-controlling interest		<u>(1)</u>	<u>(120)</u>	<u>1</u>	<u>(208)</u>
		<u>(653)</u>	<u>(1,509)</u>	<u>357</u>	<u>(4,779)</u>
(Loss)/earnings per share attributable to owners of the parent (sen per share)					
- Basic	9	<u>(0.48)</u>	<u>(1.03)</u>	<u>0.26</u>	<u>(3.40)</u>

These condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to these interim financial statements.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018 (CONTINUED)

	Current quarter 3 months ended		Cumulative quarter 6 months ended	
	30.06.2018 Unaudited RM'000	30.06.2017 Unaudited RM'000	30.06.2018 Unaudited RM'000	30.06.2017 Unaudited RM'000
(Loss)/profit before taxation	(653)	(1,509)	357	(4,779)
Other comprehensive income				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Net loss on available-for-sale ("AFS") financial assets	(447)	(150)	(784)	(144)
Other comprehensive loss for the period, net of tax	(447)	(150)	(784)	(144)
Total comprehensive loss for the period, net of tax	(1,100)	(1,659)	(427)	(4,923)
Total comprehensive (loss)/income for the period, net of tax attributable to:				
Owners of the parent	(1,099)	(1,539)	(428)	(4,715)
Non-controlling interest	(1)	(120)	1	(208)
	(1,100)	(1,659)	(427)	(4,923)

These condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to these interim financial statements.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	30.06.2018 Unaudited RM'000	31.12.2017 Audited RM'000
Assets			
Non-current assets			
Property, plant and equipment	10	51,293	52,687
Investment properties		12,280	12,395
Goodwill	11	-	-
Investment in associates		2,198	2,198
Deferred tax assets		1,156	789
Investment securities	12	1,649	2,434
		<u>68,576</u>	<u>70,503</u>
Current assets			
Inventories		13,926	7,565
Trade and other receivables		17,254	20,019
Tax recoverable		1,138	2,121
Cash and bank balances	13	14,764	11,413
		<u>47,082</u>	<u>41,118</u>
Total assets		<u>115,658</u>	<u>111,621</u>
Equity and liabilities			
Equity			
Share capital	14	67,898	67,898
Retained earnings		28,360	28,004
Other reserves		(21,305)	(20,521)
Equity attributable to owners of the parents		<u>74,953</u>	<u>75,381</u>
Non-controlling interest		30	29
Total equity		<u>74,983</u>	<u>75,410</u>
Non-current liabilities			
Retirement benefit obligations		8,667	8,906
Borrowings	15	641	797
		<u>9,308</u>	<u>9,703</u>
Current liabilities			
Retirement benefit obligations		991	400
Borrowings	15	983	837
Trade and other payables		29,393	25,271
		<u>31,367</u>	<u>26,508</u>
Total liabilities		<u>40,675</u>	<u>36,211</u>
Total equity and liabilities		<u>115,658</u>	<u>111,621</u>
Net assets per share attributable to owners of the parent ("RM")		0.56	0.56

These condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to these interim financial statements.

**GOLDEN PHAROS BERHAD (Company No. 152205-W)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

	Attributable to owners of the parent							Non-controlling interest RM'000
	Non-distributable	Distributable	Non-distributable					
	Equity, total RM'000	Share capital RM'000	Total retained earnings RM'000	Other reserves, total RM'000	Fair value reserve RM'000	Equity contribution from owners RM'000	Reserve arising from merger RM'000	
Opening balance at 1 January 2018								
- As previously stated	74,425	67,898	27,019	(20,521)	935	1,262	(22,718)	29
- Effect of changes in accounting policies (Note 3)	985	-	985	-	-	-	-	-
As at 1 January 2018, as restated	75,410	67,898	28,004	(20,521)	935	1,262	(22,718)	29
Profit for the period	357	-	356	-	-	-	-	1
Other comprehensive loss								
- Fair value adjustment reserve	(784)	-	-	(784)	(784)	-	-	-
Total comprehensive (loss)/income	(427)	-	356	(784)	(784)	-	-	1
Closing balance at 30 June 2018	74,983	67,898	28,360	(21,305)	151	1,262	(22,718)	30
Opening balance at 1 January 2017								
- As previously stated	74,888	67,898	26,503	(19,951)	1,505	1,262	(22,718)	438
- Effect of changes in accounting policies (Note 3)	1,025	-	1,025	-	-	-	-	-
As at 1 January 2017, as restated	75,913	67,898	27,528	(19,951)	1,505	1,262	(22,718)	438
Loss for the period	(4,779)	-	(4,571)	-	-	-	-	(208)
Other comprehensive income								
- Fair value adjustment reserve	(144)	-	-	(144)	(144)	-	-	-
Total comprehensive loss	(4,923)	-	(4,571)	(144)	(144)	-	-	(208)
Closing balance at 30 June 2017	70,990	67,898	22,957	(20,095)	1,361	1,262	(22,718)	230

These condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to these interim financial statements.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

	Note	6 months ended	
		30.06.2018 Unaudited RM'000	30.06.2017 Unaudited RM'000
Operating activities			
Profit/(loss) before tax		1,222	(5,119)
<u>Adjustments for:</u>			
Interest income	7	(67)	(73)
Interest expenses	7	54	75
Gain on disposal of property, plant and equipment	7	-	(51)
Depreciation of property, plant and equipment	7	1,917	1,777
Depreciation of investment properties	7	115	113
Property, plant and equipment written off	7	85	1
(Reversal)/provision of expected credit loss allowance	7	(35)	20
Provision for retirement benefits	7	530	458
Provision/(reversal) for short-term accumulating compensated absences	7	2	(15)
Total adjustments		<u>2,601</u>	<u>2,305</u>
Operating cash flows before changes in working capital		3,823	(2,814)
<u>Changes in working capital</u>			
Increase in inventory		(6,361)	(3,683)
Decrease/(increase) in trade and other receivables		2,867	(1,343)
Increase in trade and other payables		4,082	585
Total changes in working capital		<u>588</u>	<u>(4,441)</u>
Interest paid		(54)	(75)
Income taxes paid		(246)	(323)
Retirement benefits paid		(179)	(464)
Total changes in working capital		<u>(479)</u>	<u>(862)</u>
Net cash flows from/(used in) operating activities		<u>3,932</u>	<u>(8,117)</u>
Investing activities			
Purchase of property, plant and equipment	10	(611)	(817)
Proceeds from disposal of property, plant and equipment		-	52
Placement of deposit with licensed bank		-	(20)
Withdrawal of deposit with licensed bank		-	1,000
Interest received		67	73
Net cash flows (used in)/from investing activities		<u>(544)</u>	<u>288</u>
Financing activities			
Drawdown from borrowings		202	1,206
Repayment of borrowings		(682)	(512)
Net cash flows (used in)/from financing activities		<u>(480)</u>	<u>694</u>
Net increase/(decrease) in cash and cash equivalents		2,908	(7,135)
Cash and cash equivalents at 1 January		10,361	9,608
Cash and cash equivalents at 30 June		<u>13,269</u>	<u>2,473</u>

These condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2017 and the accompanying explanatory notes attached to these interim financial statements.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

1. Corporate information

Golden Pharos Berhad is a public limited liability company incorporated and domiciled in Malaysia, and is listed on Bursa Malaysia Securities Berhad.

2. Basis of preparation

The condensed financial statements are unaudited and have been prepared in accordance with IAS 34, MFRS 134, *Interim Financial Reporting* and paragraph 9.22 of Bursa Malaysia Securities Berhad's Main Market Listing Requirements. They should also be read in conjunction with the financial statements of the Group for the year ended 31 December 2017 and the accompanying notes attached to the unaudited condensed consolidated financial statements.

3. Significant accounting policies

The significant accounting policies adopted are consistent with those of the audited financial statements for the year ended 31 December 2017, except for the adoption of the following new and amended MFRSs and IC Interpretation which are applicable to its financial statements and are relevant to its operations:-

On 1 January 2018, the Group adopted the following new and amended MFRSs and IC Interpretation mandatory for annual periods beginning on or after 1 January 2018:

Description	Effective for annual periods beginning on or after
MFRS 2 Classification and Measurement of Share-based Payment	1 January 2018
Transactions (Amendments to MFRS 2)	1 January 2018
MFRS 9 Financial Instruments	1 January 2018
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 140 Transfer of Investment Property (Amendments to MFRS 140)	1 January 2018
Annual Improvement to MFRS Standards 2014-2016 Cycle	1 January 2018
IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

The initial application of the abovementioned standards and interpretations did not have any material impact to the financial statements of the Group except as discussed in below:

MFRS 9 Financial Instrument

The Group has adopted MFRS 9 which is become effective for annual periods beginning on or after 1 January 2018. Retrospective application is required, but comparative information is not compulsory.

The key changes to the Group's accounting policies resulting from its adoption of MFRS 9 are summarised below.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

3. Significant accounting policies (continued)

MFRS 9 Financial Instrument (continued)

(i) Classification of financial assets and financial liabilities

MFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristic.

MFRS 9 contains three (3) principal classification categories for financial assets:

- Amortised Cost ("AC")
- Fair Value through Other Comprehensive Income ("FVOCI"), and
- Fair Value through Profit or Loss ("FVTPL")

The standard eliminates the existing MFRS 139 categories of Held-to-Maturity ("HTM"), Loans and Receivables ("L&R") and Available-for-Sale ("AFS").

MFRS 9 largely retains the existing requirement in MFRS 139 for the classification of financial liabilities. However, under MFRS 139 all fair value changes of liabilities designated as FVTPL are recognised in profit or loss, whereas under MFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group have classified their financial liabilities as other financial liabilities, and therefore, the application of MFRS 9 will not have significant impact on the Group's financial liabilities.

(ii) Impairment of financial assets

MFRS 9 replaces the "incurred loss" loss model in MFRS 139 with a forward-looking "expected credit loss" ("ECL") model. This requires considerable judgement about how changes in economic factors affect ECLs, which is determined on a probability-weighted basis. Under MFRS 9, credit losses are recognised earlier than under MFRS 139.

The new impairment model is applied to financial assets measured at AC or FVOCI, except for investment in equity instruments.

Under MFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs*: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- *Lifetime ECLs*: These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not increased significantly. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

**GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

3. Significant accounting policies (continued)

MFRS 9 Financial Instrument (continued)

(iii) Effect upon adoption of MFRS 9

(a) Investment in equity instruments.

Quoted equity shares with a fair value of RM935,000 currently held as available-for-sale. On the adoption of MFRS 9, the Group has elected to designate this investment that are held for long-term strategic purpose to be measured at FVOCI. For the unquoted investment in equity instruments, the Group will apply the option to present fair value changes in OCI, and therefore, the application of MFRS 9 will not have significant impact.

Consequently, all fair value gains and losses were reported in other comprehensive income, no impairment losses were recognised in profit or loss and no gains or losses will be reclassified to profit or loss on disposal for these financial assets.

(b) Trade receivables

The Group has assessed and considered trade receivables as financial asset at AC subject to MFRS 9's new expected credit loss model. The Group applies the simplified approach to provide for expected credit losses prescribed by MFRS 9, which permit the use of the lifetime expected loss provision for all trade receivables.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectable were written off by reducing the carrying amount directly.

Under new expected loss model, the impairment are based on shared credit characteristic, whereby the expected loss is recognised immediately on the first day even loss event not yet occur. The expected loss rate is considered based on past experience of collecting payments, current market condition and forward looking information.

The impact and movement in allowance account upon adoption of MFRS 9:

	2018
	RM'000
At 1 January	11,927
Effect on adoption of MFRS 9 recognised in retained earnings	(985)
Decrease in expected credit loss allowance recognised in profit and loss	(35)
At 30 June	<u>10,907</u>

**GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018**

3. Significant accounting policies (continued)

MFRS 9 Financial Instrument (continued)

(iv) Effect on retained earnings

The effect of transition to MFRS 9 on the opening retained earnings are as follow, there is no impact on other components of equity.

	Impact of adopting MFRS 9 As at 1.1.2018 RM'000
Retained earnings	
Closing balance under MFRS 139 at 31 December 2017	27,019
Recognition of expected credit losses under MFRS 9	985
Opening balance under MFRS 9 at 1 January 2018	<u>28,004</u>

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 *Revenue*, MFRS 111 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Upon adoption of MFRS 15, the Group recognises the revenue from contracts with customers when or as the Group transfers goods or services to a customer, measured at the amount to which the Group expects to be entitled, according to the term and condition stipulated in the contracts with customers. Depending on whether certain criteria are met, revenue is recognised over time, in a manner that depicts the Group’s performance; or at a point in time, when control of the goods or services is transferred to the customers. The adoption of this new MFRS 15 have not resulted in any material impact on the financial statements of the Group.

4. Changes in estimates

There were no significant changes in estimates that have had a material effect in the current interim results.

5. Seasonality of operations

During the quarter under review, the Group's principal business operations were not affected by the seasonal and cyclical factors.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

6. Segment information

The Group is organised into business units based on their products and services, and has three operating segments as follows:

- (i) Harvesting, sawmilling, kiln drying of timber and sales of rights to log.
- (ii) Manufacturing - manufacturing and trading of glass.
- (iii) Others - including investment holding, rental of properties, marketing and trading of woodchips, none of which are of a sufficient size to be reported separately.

There has been no material change in total assets and no differences in the basis of segmentation or in the basis of measurement of segment profit or loss as compared to the last annual financial statements.

	Harvesting, sawmilling and kiln drying RM'000	Manufacturing RM'000	Others RM'000	Consolidated RM'000
Results for 3 months ended 30 June 2018				
Operating revenue	11,872	5,519	395	17,786
Other operating income	8	37	-	45
Expenses	(10,600)	(5,530)	(1,568)	(17,698)
Profit/(loss) before taxation	1,280	26	(1,173)	133

Results for 3 months ended 30 June 2017				
Operating revenue	7,727	7,553	230	15,510
Other operating income	28	52	13	93
Expenses	(8,592)	(7,251)	(1,447)	(17,290)
(Loss)/profit before taxation	(837)	354	(1,204)	(1,687)

	Harvesting, sawmilling and kiln drying RM'000	Manufacturing RM'000	Others RM'000	Consolidated RM'000
Results for 6 months ended 30 June 2018				
Operating revenue	21,406	11,672	602	33,680
Other operating income	107	80	93	280
Expenses	(18,543)	(11,462)	(2,733)	(32,738)
Profit/(loss) before taxation	2,970	290	(2,038)	1,222

Results for 6 months ended 30 June 2017				
Operating revenue	9,251	14,149	533	23,933
Other operating income	79	110	15	204
Expenses	(13,015)	(13,593)	(2,648)	(29,256)
(Loss)/profit before taxation	(3,685)	666	(2,100)	(5,119)

GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

7. Profit/(loss) before taxation

Included in the profit/(loss) before taxation are the following items:

	Current quarter		Cumulative quarter	
	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Interest income	(37)	(43)	(67)	(73)
Interest expenses	28	44	54	75
Depreciation of property, plant and equipment	966	862	1,917	1,777
Depreciation of investment properties	57	56	115	113
Gain on disposal of property, plant and equipment	-	(28)	-	(51)
Property, plant and equipment written off (Reversal)/provision of expected credit loss allowance	(33)	10	(35)	20
Provision/(reversal) for short-term accumulating compensated absences	(4)	3	2	(15)
Provision for retirement benefits	265	229	530	458

8. Income tax expense/(benefit)

	Current quarter		Cumulative quarter	
	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
	RM'000	RM'000	RM'000	RM'000
Current income tax	857	11	1,152	24
Deferred income tax	(69)	(189)	(283)	(364)
Over provision of deferred tax in respect of previous years	(2)	-	(4)	-
	786	(178)	865	(340)
Effective tax rate	591.0%	10.6%	70.8%	6.6%

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. For the current financial period under review, the Group's effective tax rate was higher than statutory tax rate due to certain expenses which were not deductible for tax purposes and due to the fact that the taxation is arising out of profit making subsidiaries whereas the group profit before tax is minimal due to heavy losses incurred by certain subsidiaries and also due to elimination of inter-company transaction.

GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

9. (Loss)/Earnings per share

Basic (loss)/earnings per share amounts are calculated by dividing (loss)/profit for the period, net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period.

		Current quarter		Cumulative quarter	
		6 months ended		6 months ended	
		30.06.2018	30.06.2017	30.06.2018	30.06.2017
(Loss)/earnings net of tax attributable to owners of the parent used in the computation of earnings per share	(RM'000)	(652)	(1,389)	356	(4,571)
Weighted average number of ordinary shares in issue	(' 000)	134,547	134,547	134,547	134,547
Basic (loss)/earnings per share	(sen)	(0.48)	(1.03)	0.26	(3.40)

10. Property, plant and equipment

During the six-month period ended 30 June 2018, the Group has acquired property, plant and equipment at a cost of RM611,000 (30 June 2017: RM817,000). As at 30 June 2018, the total depreciation charged for the property, plant and equipment was RM1,917,000 (30 June 2017: RM1,777,000). Property, plant and equipment with a carrying amount of RM85,000 were written off by the Group during the six-month period ended 30 June 2018 (30 June 2017: RM1,000). This has been included in other operating expenses in the statement of profit and loss and other comprehensive income.

11. Goodwill

	Goodwill
	RM'000
Cost:	
At 1 January 2017/31 December 2017/30 June 2018	<u>613</u>
Accumulated impairment:	
At 1 January 2017/31 December 2017/30 June 2018	<u>(613)</u>
Net carrying amount:	
At 1 January 2017/31 December 2017/30 June 2018	<u>-</u>

12. Fair value hierarchy

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

GOLDEN PHAROS BERHAD (Company No. 152205-W)
EXPLANATORY NOTES PURSUANT TO MFRS 134
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

12. Fair value hierarchy (continued)

As at the reporting date, the Group held the following financial assets that are measured at fair value:

	Total	Level 1	Level 2	Level 3
	RM'000	RM'000	RM'000	RM'000
30 June 2018				
Fair value through other comprehensive income financial assets				
Equity shares	1,649	1,649	-	-
31 December 2017				
Available-for-sale financial assets				
Equity shares	2,434	2,434	-	-

No transfer between any levels of the fair value hierarchy took place during the current interim period and the comparative period. There were also no changes in the purpose of any financial assets that subsequently resulted in a different classification of that assets.

The Group does not hold credit enhancements or collateral to mitigate credit risk. The carrying amount of financial assets therefore represents the potential credit risk.

13. Cash and bank balances

Cash and bank balances comprised the following amounts:

	30.06.2018	31.12.2017
	RM'000	RM'000
Cash at banks and in hand	4,561	9,616
Deposits in licensed banks	10,203	1,797
	<u>14,764</u>	<u>11,413</u>
Less:		
Bank overdraft	(443)	-
Deposits in licensed banks	(1,052)	(1,052)
Total cash and cash equivalents	<u><u>13,269</u></u>	<u><u>10,361</u></u>

14. Share capital

There were no issuances, cancellation, repurchases, resale and repayments of debts and equity securities for the financial period ended 30 June 2018.

15. Borrowings

	30.06.2018	31.12.2017
	RM'000	RM'000
Current		
Secured	983	837
Non-current		
Secured	641	797
Total borrowings	<u><u>1,624</u></u>	<u><u>1,634</u></u>

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16. Dividend

There was no dividend declared by the Company during the financial period ended 30 June 2018 (30 June 2017: RMNil).

17. Commitments

	30.06.2018	31.12.2017
	RM'000	RM'000
Capital expenditure		
Approved and contracted for:		
Plant and machinery	586	-
Approved but not contracted for:		
Plant and machinery	4,422	5,008
Motor vehicles	193	193
	5,201	5,201

18. Related party transactions

The following table provides information on the transactions which have been entered into with related parties during the six-month periods ended 30 June 2018 and 31 December 2017 as well as the balances with the related parties as at 30 June 2018 and 31 December 2017:

		Loans	Secretarial	Expenses	Amounts
		from related	fee	paid by	owed to
		parties	RM'000	related	related
		RM'000	RM'000	parties	parties
		RM'000	RM'000	RM'000	RM'000
Entities with significant influence over the Group:					
Holding company					
Terengganu Incorporated Sdn. Bhd. ("TISB")	30.06.2018	-	3	25	15,296
	31.12.2017	1,000	5	64	15,268
A corporate shareholder					
Lembaga Tabung Amanah Warisan	30.06.2018	-	-	-	640
Negeri Terengganu ("LTAWNT")	31.12.2017	-	-	-	640

19. Events after the reporting period

There were no material events after reporting period during the current quarter.

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20. Performance review

(a) Current Quarter vs Corresponding Quarter of Previous Period (2Q18 vs 2Q17)

The Group registered a revenue of RM17.79 million for the current quarter ended 30 June 2018 (2Q2018), improved by 15% from RM15.51 million reported in the previous year's corresponding quarter (2Q2017). Accordingly, the Group posted a marginal profit before taxation (PBT) of RM0.13 million in 2Q2018 as compared to a loss before taxation of RM1.69 million in 2Q2017.

The improved result was primarily contributed by the favourable performance of the Group's harvesting, sawmilling and kiln-drying segment.

Harvesting, sawmilling and kiln drying segment

During the quarter under review, the harvesting, sawmilling and kiln drying segment reported a PBT of RM1.28 million, 253% better than the loss before taxation of RM0.84 million in the previous year's corresponding quarter. The improved result was in line with the significant increase in segment's revenue by 54% to RM11.87 million in 2Q2018 as compared with RM7.73 million reported in 2Q2017.

The favourable performance in the segment's revenue and profit were contributed by the higher sales achievement of sawntimber as a result of better logs extraction in the current quarter. For record, a total of 12,311 hoppus tonne logs were extracted during the 2Q2018 as compared to 7,400 hoppus tonne logs extracted during the same period in the previous year.

Manufacturing segment

In contrast, the manufacturing segment which is the glass division of the Group reported an adverse performance as the PBT in 2Q2018 decreased to RM0.03 million from RM0.35 million in 2Q2017. The reduction in profit was in line with the drop in the segment's revenue of 27% during the quarter under review, primarily related to the lukewarm construction projects which affected the segment's order book.

Other segment

Other segment reported an increase in revenue of 72% in 2Q2018 to RM0.40 million from RM0.23 million revenue registered in 2Q2017 mainly from the improved production and sale of woodchips. As a result, the segment's loss before taxation slightly reduced from RM1.20 million in 2Q2017 to RM1.17 million in 2Q2018 despite higher administrative expenses incurred by the segment during the quarter under review.

(b) Current Period-to-date vs Previous Period-to-date (FY2018 vs FY2017)

For the first half year ended 30 June 2018 (1H2018), the Group is showing admirable results by exceeding performance against the same period last year (1H2017) in terms of revenue and profitability.

The Group's revenue was RM33.68 million, an increase of 41% from RM23.93 million in 1H2017. Consequently, the gross profit grew 340% to RM9.30 million as compared with RM2.11 million in 1H2017 on the back of superior contributions in the harvesting and sawmilling segment of the Group. As a result, the Group's PBT improved to RM1.22 million in 1H2018 as compared to the loss before taxation of RM5.12 million reported in the previous year's corresponding period.

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20. Performance review (continued)

(b) Current Period-to-date vs Previous Period-to-date (FY2018 vs FY2017) (continued)

Harvesting, sawmilling and kiln drying segment

In the current period, the segment registered a PBT of RM2.97 million, a substantial increase of 181% from the 1H2017 loss before taxation of RM3.68 million. The significant profit achieved was in line with the notable increase in the segment's revenue by 131% to RM21.41 million in 1H2018 as compared to RM9.25 million reported in 1H2017.

The remarkable results in the segment's revenue and profit were contributed by the higher sawn timber production, which eventually contributed to the increase in the sales of sawn timber by 119% from 4,547 tonne in 1H2017 to 9,993 tonne in 1H2018.

The main reason for the improved segment's performance was due to more active licenses for logging activities during 1H2018 as compared to the previous year. A total of 24,226 hpt logs were extracted during the period under review as compared with 12,746 hpt logs extracted during 1H2017. In addition, the proceeds from forward sales of standing tree amounting to RM2.32 million were also contributed to the better results in the 1H2018.

Manufacturing segment

The manufacturing segment of the Group reported a reduction in revenue by 18% in 1H2018 as compared to 1H2017. In line with revenue reduction, the segment's PBT decreased significantly to RM0.29 million in 1H2018 from RM0.67 million PBT reported in 1H2017

The adverse performance of the segment was contributed by the lukewarm situation of construction industry which affect glass order book where developers purposely delayed the completion of projects.

Other segment

Other segment recorded a reduction in loss before taxation by 3% to RM2.04 million as compared with a loss of RM2.10 million recorded in the previous year's corresponding period mainly due to the improved woodchips revenue by 13% and the increase in other operating income for the segment during 1H2018.

21. Material change in performance of operating segments of current quarter compared with immediate preceding quarter

	Current quarter 30.06.2018 RM'000	Immediate preceding quarter 31.3.2018 RM'000
Revenue	17,786	15,894
Profit before taxation	133	1,089

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21. Material change in performance of operating segments of current quarter compared with immediate preceding quarter (continued)

The Group's revenue for the quarter under review was RM17.79 million, increased by 12% from RM15.89 million reported in the immediate preceding quarter. Despite the increase in revenue, the Group's profit before taxation declined by 88% to RM0.13 million in the quarter under review, mainly due to the decline in the harvesting, sawmilling and kiln drying segment's profit by 24%.

The harvesting, sawmilling and kiln drying segment posted a profit before taxation of RM1.28 million with revenue recorded at RM11.87 million during the current quarter. If compared with the preceding quarter's profit before taxation of RM1.70 million and revenue of RM9.54 million, there was a reduction in profit by 24% despite the increase in revenue by 25%.

In the preceding quarter, there was a profit from forward sales of standing trees amounting to RM2.32 million which contributed to the higher profit to the segment. There was no such exercise in the current quarter.

The manufacturing segment's profit before taxation reduced by 90% to RM0.03 million in the current quarter as compared to RM0.26 million in the immediate preceding quarter. The reduction was in line with the decrease in segment's revenue from RM6.15 million to RM5.52 million in the current quarter. As reported earlier, the slowdown in glass demand from construction projects has impacted the segment's performance in the quarter under review.

Other segment reported an increase in loss before taxation by 36% from RM0.87 million reported in the immediate preceding quarter, despite the increase in revenue by 91%. The adverse performance in the quarter under review was contributed by the increase in certain administrative expenses.

22. Commentary on prospect

Harvesting, sawmilling and kiln drying of timber

Internal logs extraction and mid-stream activities are expected to maintain its current performance in the coming quarters with the existing active logging licenses in hand. Normally, 3rd quarter period of the year is the best weather conditions to extract and deliver logs to the sawmills for further processing.

However, harvesting activity will continue to face challenges such as ability to achieve optimum extraction yield per hectare, new stringent regulations by the Forestry Department which need to be complied, and increase in operational cost. With the continuous improvement initiatives taken by the management, the performance of the harvesting, sawmilling and kiln drying segment is expected to further contribute the positive result for the Group

Manufacturing

The market environment and construction projects situation will cause greater challenge to the glass segment of the Group. Competition remains very stiff especially in the local market as the customers demand price reduction and longer credit terms.

However with the new projects in the pipeline, especially the reactivation of veneer operations after the long cessation period, the segment is expected to contribute positive result to the Group in the next quarter.

The Management will continue to intensify its effort to improve efficiency, productivity and profitability of the Group for the current financial year.

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23. Changes in material litigation

There was no material litigation against the Group.

24. Dividend payable

There was no dividend paid by the Company during the financial period ended 30 June 2018 (30 June 2017: RMNil).

25. Risks and policies of derivatives

The Group did not enter into any derivative during the financial period ended 30 June 2018 or the previous financial year ended 31 December 2017.

26. Disclosure of losses/gains arising from fair value changes of financial liabilities

The Group did not have any financial liabilities measured at fair value through profit or loss as at 30 June 2018 and 31 December 2017.

27. Auditors' report on preceding annual financial statements

The auditors' report on the financial statements for the year ended 31 December 2017 was not qualified.

28. Authorised for issue

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 30 August 2018.

By order of the Board

Dato' Ahmad Nadzarudin bin Abdul Razak
Chief Executive Officer