

DAIBOCHI BERHAD (12994 - W)
(formerly known as DAIBOCHI PLASTIC AND PACKAGING INDUSTRY BHD)
UNAUDITED QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER
ENDED JUNE 30, 2018

The Board of Directors is pleased to submit its quarterly report on the consolidated results of the Group for the second quarter ended June 30, 2018. The figures have not been audited.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	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
Revenue	106,373	86,836	211,114	180,952
Operating profit	7,061	7,356	16,442	15,128
Finance costs	(932)	(670)	(1,794)	(1,358)
Share of results of equity-accounted associate	145	(33)	168	318
Profit before tax	6,274	6,653	14,816	14,088
Income tax expense	(1,261)	(1,608)	(2,722)	(3,275)
Profit for the financial period	5,013	5,045	12,094	10,813
Other comprehensive income for the financial period, net of income tax				
Item that will be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	(803)	(181)	(2,847)	143
Total comprehensive income for the financial period	4,210	4,864	9,247	10,956
Profit attributable to:				
Owners of the Company	4,651	5,045	11,127	10,813
Non-controlling interests	362	-	967	-
	5,013	5,045	12,094	10,813
Total comprehensive income attributable to:				
Owners of the Company	4,149	4,864	9,180	10,956
Non-controlling interests	61	-	67	-
	4,210	4,864	9,247	10,956
Earnings per ordinary share				
attributable to owners of the Company				
- Basic (sen)	1.42	1.54	3.40	3.30

^ Denote less than RM1,000

(The Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Annual Report for the financial year ended December 31, 2017 and the accompanying explanatory notes attached to the interim financial statements.)

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UNAUDITED QUARTERLY REPORT ON THE CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER
ENDED JUNE 30, 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited	Audited	Audited
	As Of	As Of	As Of
	30.06.2018	31.12.2017	01.01.2017
	RM'000	RM'000	RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	140,663	138,088	141,218
Investment in an associate	19,531	19,363	20,245
Goodwill	33,741	35,137	-
Deferred tax assets	109	117	119
Total non-current assets	194,044	192,705	161,582
Current assets			
Inventories	96,446	86,537	72,554
Trade and other receivables	63,841	67,766	57,783
Tax recoverable	1,078	805	627
Derivative financial assets	4	6	21
Short-term deposits, cash and bank balances	15,840	18,306	15,829
Total current assets	177,209	173,420	146,814
Total assets	371,253	366,125	308,396
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	164,176	164,163	136,623
Treasury shares	(925)	(508)	(2,354)
Reserves	38,669	37,193	54,902
Equity attributable to owners of the Company	201,920	200,848	189,171
Non-controlling interests	23,078	21,054	-
Total equity	224,998	221,902	189,171
Non-current liabilities			
Trade and other payables	442	664	508
Borrowings			
- interest bearing	18,252	20,128	13,417
Deferred tax liabilities	13,762	13,016	12,860
Total non-current liabilities	32,456	33,808	26,785
Current liabilities			
Trade and other payables	53,568	57,912	51,297
Derivative financial liabilities	-	-	570
Borrowings			
- bank overdraft (interest bearing)	5	10	-
- interest bearing	58,521	49,737	40,573
Tax payable	1,705	2,756	-
Total current liabilities	113,799	110,415	92,440
Total liabilities	146,255	144,223	119,225
Total equity and liabilities	371,253	366,125	308,396

(The Condensed Consolidated Statement of Financial Position should be read in conjunction with the Annual Report for the financial year ended December 31, 2017 and the accompanying explanatory notes attached to the interim financial statements.)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to Owners of The Company						Distributable Reserve Retained Earnings RM'000	Total RM'000	Non-controlling Interests RM'000	Total Equity RM'000
	Issued Capital RM'000	Treasury Shares RM'000	Share Premium RM'000	- Non-Distributable Reserves -						
				Translation Reserve RM'000	Warrants Reserve RM'000	Discount on Shares RM'000				
Balance as of January 1, 2018	164,163	(508)	-	(1,472)	9,837	(9,837)	38,665	200,848	21,054	221,902
Total comprehensive income for the financial period	-	-	-	(1,947)	-	-	11,127	9,180	67	9,247
Transactions with owners :										
Dividends to owners of the Company	-	-	-	-	-	-	(7,704)	(7,704)	-	(7,704)
Bonus shares	-	-	-	-	-	-	-	-	-	-
Exercise of warrants	9	-	-	-	(1)	1	-	9	-	9
Share buy-back	-	(925)	-	-	-	-	-	(925)	-	(925)
Disposal of treasury shares	4	508	-	-	-	-	-	512	-	512
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	1,957	1,957
Total transactions with owners	13	(417)	-	-	(1)	1	(7,704)	(8,108)	1,957	(6,151)
Balance as of June 30, 2018	164,176	(925)	-	(3,419)	9,836	(9,836)	42,088	201,920	23,078	224,998
Balance as of January 1, 2017	136,623	(2,354)	2,950	595	-	-	51,357	189,171	-	189,171
Total comprehensive income for the financial period	-	-	-	143	-	-	10,813	10,956	-	10,956
Transactions with owners :										
Dividends to owners of the Company	-	-	-	-	-	-	(7,211)	(7,211)	-	(7,211)
Bonus shares	27,325	-	(2,950)	-	-	-	(24,375)	-	-	-
Warrant issue	-	-	-	-	9,837	(9,837)	-	-	-	-
Share buy-back	-	(1,821)	-	-	-	-	-	(1,821)	-	(1,821)
Disposal of treasury shares	196	4,175	-	-	-	-	-	4,371	-	4,371
Capital contribution by non-controlling interest	-	-	-	-	-	-	-	-	345	345
Total transactions with owners	27,521	2,354	(2,950)	-	9,837	(9,837)	(31,586)	(4,661)	345	(4,316)
Balance as of June 30, 2017	164,144	-	-	738	9,837	(9,837)	30,584	195,466	345	195,811

(The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Report for the financial year ended December 31, 2017 and the accompanying explanatory notes attached to the interim financial statements.)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 6 Months ended 30.06.2018 RM'000	Unaudited 6 Months ended 30.06.2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers and other receivables	221,683	186,585
Cash paid to suppliers, employees and other payables	<u>(209,494)</u>	<u>(181,786)</u>
Cash generated from operations	12,189	4,799
Interest received	23	109
Interest paid	(1,182)	(936)
Tax paid	<u>(3,243)</u>	<u>(2,076)</u>
Net Cash From Operating Activities	<u>7,787</u>	<u>1,896</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	60	19
Purchase of property, plant and equipment, net of finance leases drawdown	<u>(10,684)</u>	<u>(1,693)</u>
Proceeds from disposal of property, plant and equipment	787	91
Net Cash Used In Investing Activities	<u>(9,837)</u>	<u>(1,583)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Share buy-back	(925)	(1,821)
Proceeds from disposal of treasury shares	512	4,371
Issuance of share capital to non-controlling interests of a subsidiary	1,957	345
Proceeds from issuance of ordinary shares	9	-
Share issuance expenses	-	(99)
Drawdown of term loans	6,644	-
Repayment of term loans	(7,174)	(2,096)
Dividends paid to owners of the Company	(7,704)	(7,211)
Interest paid	(612)	(422)
Proceeds from short-term borrowings (net)	8,908	2,983
Repayment of finance leases	<u>(1,470)</u>	<u>(1,399)</u>
Net Cash From/(Used In) Financing Activities	<u>145</u>	<u>(5,349)</u>
Net decrease in cash and cash equivalents	(1,905)	(5,036)
Cash and cash equivalents at beginning of financial year	18,296	15,829
Effect of exchange differences	(556)	42
Cash and cash equivalents at end of financial period *	<u>15,835</u>	<u>10,835</u>
* Cash and cash equivalents at end of financial period consist of:-		
Short-term deposits with licensed banks	900	-
Cash and bank balances	14,940	11,051
Bank overdrafts	<u>(5)</u>	<u>(216)</u>
	<u>15,835</u>	<u>10,835</u>

(The Condensed Consolidated Statement of Cash Flows should be read in conjunction with the Annual Report for the financial year ended December 31, 2017 and the accompanying explanatory notes attached to the interim financial statements.)

NOTES TO THE QUARTERLY FINANCIAL REPORT

A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134 Interim Financial Reporting and paragraph 9.22 of the Bursa Malaysia Securities Berhad's Listing Requirements.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the financial year ended December 31, 2017. These explanatory notes attached to the interim financial statements 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 December 31, 2017.

The Group has adopted the Malaysian Financial Reporting Standards ("MFRSs") framework issued by the Malaysian Accounting Standards Board with effect from January 1, 2018, and MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards has been applied. Accordingly, the financial statements of the Group for the financial year ending December 31, 2018 is the first set of financial statements prepared in accordance with the MFRSs.

For periods up to and including the financial year ended December 31, 2017, the Group prepared its financial statements in accordance with the Financial Reporting Standards ("FRSs") in Malaysia. The convergence from FRSs to the MFRSs framework does not have significant effect on the financial statements of the Group.

The following MFRSs, IC Interpretation and amendments to MFRSs have been adopted by the Group during the current period:

MFRSs, IC Interpretation and amendments to MFRSs		Effective date
MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards	January 1, 2018
MFRS 9	Financial Instruments (IFRS 9 as issued by IASB in July 2014)	January 1, 2018
MFRS 15	Revenue from Contracts with Customers	January 1, 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	January 1, 2018
Amendments to MFRS 1	First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016 Cycle)	January 1, 2018
Amendments to MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)	January 1, 2018

The adoption of the MFRSs, IC Interpretation and amendments to MFRSs does not have significant financial impact on the financial statements of the Group.

A2 Audit report

The audit report of the preceding annual financial statements was not qualified.

A3 Seasonal or cyclical factors

The operations of the Group during the financial period under review have not been materially affected by any seasonal or cyclical factors.

A4 Unusual items

There were no items during this quarter affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidence.

A5 Changes in estimates

The same estimates reported in the previous financial year were used in preparing the financial statements for the period under review.

A6 Debt and Equity Securities

During the current quarter, the Company repurchased 442,100 units of its own shares through purchases on Bursa Malaysia Securities Berhad. The total amount paid for acquisition of the shares was RM925,150 including transaction costs and has been deducted from equity. The repurchased transactions were financed by internally generated funds and the average price paid for the shares was RM2.09. The shares repurchased are being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

A7 Dividend Paid

	6 months ended	
	30.06.2018	30.06.2017
	RM'000	RM'000
Fourth interim single tier dividend paid for the financial year 2017: 1.30 sen per ordinary share paid on March 21, 2018. (2017: 1.32 sen single tier dividend per ordinary share for the financial year 2016 paid on April 10, 2017).	4,263	3,604
First interim single tier dividend paid for the financial year 2018: 1.05 sen per ordinary share paid on June 28, 2018. (2017: 1.32 sen single tier dividend per ordinary share for the financial year 2017 paid on June 22, 2017).	3,441	3,607
	=====	=====

A8 Related party transactions

There were no significant related party transactions for the Group during the period under review.

A9 Contingent liabilities

There were no contingent liabilities as at the date of this quarterly report.

A10 Capital Commitments

Capital commitments not provided for in the financial statements as of June 30, 2018 were as follows: -

	RM'000
Property, plant and equipment	
- Authorised and contracted for	411
- Authorised but not contracted for	11,721
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A11 Subsequent events

There were no material events subsequent to June 30, 2018 and up to the date of the issuance of this quarterly report that have not been reflected in this quarterly report.

A12 Changes in the Composition of the Group

There were no changes in the composition of the Group including business combinations, acquisitions or disposals of subsidiaries and long term investments, restructuring and discontinuing operations as at June 30, 2018.

A13 Operating segments

No segment information has been prepared as the Group is primarily engaged in manufacturing and marketing of flexible packaging materials.

Geographical Information

The Group operates in four principal geographical areas – Malaysia (country of domicile), Myanmar, Australia and New Zealand (“ANZ”).

The Group’s financial performance from continuing operations and information about its non-current assets* by geographical location for the six months ended are as follows:

	Malaysia RM'000	Australia RM'000	New Zealand RM'000	MALAYSIA PLANT RM'000	Myanmar RM'000	Total RM'000	Elimination RM'000	Group RM'000
3 months quarter ended June 30, 2018								
Revenue								
-external	78,874	19,295	295	98,464	7,909	106,373	-	106,373
-internal	16,305	-	-	16,305	1,080	17,385	(17,385)	-
	<u>95,179</u>	<u>19,295</u>	<u>295</u>	<u>114,769</u>	<u>8,989</u>	<u>123,758</u>	<u>(17,385)</u>	<u>106,373</u>
Profit by geographical location	<u>3,599</u>	<u>473</u>	<u>(23)</u>	<u>4,049</u>	<u>1,013</u>	<u>5,062</u>	<u>1,067</u>	<u>6,129</u>
Share of results of equity-accounted associate								<u>145</u>
Profit before tax								<u><u>6,274</u></u>
3 months quarter ended June 30, 2017								
Revenue								
-external	67,170	18,588	1,078	86,836	-	86,836	-	86,836
-internal	19,502	-	-	19,502	-	19,502	(19,502)	-
	<u>86,672</u>	<u>18,588</u>	<u>1,078</u>	<u>106,338</u>	<u>-</u>	<u>106,338</u>	<u>(19,502)</u>	<u>86,836</u>
Profit by geographical location	<u>6,941</u>	<u>104</u>	<u>21</u>	<u>7,066</u>	<u>-</u>	<u>7,066</u>	<u>(380)</u>	<u>6,686</u>
Share of results of equity-accounted associate								<u>(33)</u>
Profit before tax								<u><u>6,653</u></u>

REVENUE	< ----- Malaysia Plant ----- >			MALAYSIA PLANT RM'000	Myanmar RM'000	Total RM'000	Elimination RM'000	Group RM'000
	Malaysia RM'000	Australia RM'000	New Zealand RM'000					
6 months quarter ended June 30, 2018								
Revenue								
-external	159,836	34,598	707	195,141	15,973	211,114	-	211,114
-internal	30,279	-	-	30,279	3,756	34,035	(34,035)	-
	190,115	34,598	707	225,420	19,729	245,149	(34,035)	211,114
Profit by geographical location	9,739	613	(3)	10,349	2,526	12,875	1,773	14,648
Share of results of equity-accounted associate								168
Profit before tax								14,816
6 months quarter ended June 30, 2017								
Revenue								
-external	144,765	34,085	2,102	180,952	-	180,952	-	180,952
-internal	34,074	-	-	34,074	-	34,074	(34,074)	-
	178,839	34,085	2,102	215,026	-	215,026	(34,074)	180,952
Profit by geographical location	14,163	258	58	14,479	-	14,479	(709)	13,770
Share of results of equity-accounted associate								318
Profit before tax								14,088
NON-CURRENT ASSETS								
As of June 30, 2018								
Non-current assets	132,251	49	-	132,300	42,505	174,805	(401)	174,404
As of June 30, 2017								
Non-current assets	135,996	85	-	136,081	-	136,081	(3)	136,078

*Non-current assets do not include investment in subsidiary/associated companies and deferred tax assets.

ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES BERHAD'S LISTING REQUIREMENTS

B1 Review of Performance

The Group's performance for the quarter under review as compared to the corresponding quarter of the previous financial year is as tabled below:

GROUP	2Q 2018	2Q 2017	Change %	6m 2018	6m 2017	Change %
	RM '000	RM '000		RM '000	RM '000	
Revenue	106,373	86,836	22.5%	211,114	180,952	16.7%
Operating profit	7,061	7,356	-4.0%	16,442	15,128	8.7%
Profit before tax	6,274	6,653	-5.7%	14,816	14,088	5.2%
Profit after tax	5,013	5,045	-0.6%	12,094	10,813	11.8%
Profit attributable to owners of the Company	4,651	5,045	-7.8%	11,127	10,813	2.9%
MYANMAR PLANT ("Daibochi Myanmar")						
Revenue	8,989	-	n/a	19,729	-	n/a
Profit before tax	1,013	-	n/a	2,526	-	n/a

QUARTER REVIEW

For the three months ended June 30, 2018, the Group recorded a 22.5% increase in revenue to RM106.37 million from RM86.84 million in the previous corresponding quarter due to higher domestic and export sales, and new contribution from the Myanmar plant. Exports as a percentage of group revenue rose to 58.8% compared to 54.4% previously. Contribution from Malaysia plant amounting to RM98.46million represents 13.4% growth from RM86.84 million in the previous corresponding quarter.

The decrease in the Group profit before tax ("PBT") of 5.7% from RM6.65 million in the previous corresponding quarter to RM6.27 million was mainly attributed to higher key raw material costs, particularly for solvent and polyester film. The Group also recognized foreign currency exchange loss during the quarter under review largely due to unrealised foreign exchange loss for foreign currency transactions in USD and a term loan used to finance its investment in Daibochi Myanmar.

The PBT, excluding the foreign currency exchange loss of RM2.16 million and share of results of an associate of RM145,000 in the current quarter under review ("adjusted PBT"), rose 25.1% to RM8.29 million from RM6.63 million previously. The Group's adjusted PBT margin increased to 7.80% from 7.64% in the previous corresponding quarter.

Daibochi's Myanmar plant, under Daibochi Packaging (Myanmar) Company Limited, recorded RM8.99 million and RM1.01 million in revenue and PBT respectively. There were no comparable data in the previous corresponding quarter as Daibochi Myanmar commenced operations on 1 July 2017. Daibochi Myanmar's PBT margin stood at 11.3% in the quarter under review.

SIX MONTHS REVIEW

For the six months ended June 30, 2018, the Group noted 16.7% higher revenue of RM211.11 million compared to RM180.95 million in the corresponding period in the previous year. The increase was due to higher demand from both our domestic and export markets, as well as new contributions from the Myanmar plant. Malaysia plant recorded a 7.8% growth in revenue to RM195.14 million compared to RM180.95 million a year ago.

Group PBT increased 5.2% to RM14.82 million from RM14.09 million in the previous corresponding period. Group PBT rose at a slower rate compared to revenue mainly due to foreign currency exchange loss recognised for the six months ended June 30, 2018. Excluding foreign currency exchange loss of RM1.50 million and share of results of an associate of RM168,000, the Group's adjusted PBT grew 19.5% to RM16.15 million from RM13.52 million in the previous corresponding period. The Group's adjusted PBT margin increased to 7.65% from 7.47% in the previous corresponding period.

Daibochi Myanmar recorded revenue and PBT of RM19.73 million and RM2.53 million respectively. Daibochi Myanmar's PBT margin stood at 12.8% in the period under review.

There were no other material factors affecting the earnings and/or revenue of the Group for the current period.

B2 Material Changes in Profit Before Tax for the Quarter Reported On As Compared with the Immediate Preceding Quarter

The Group's current quarter performance as compared to that of the preceding quarter is as tabled below:

GROUP	2Q 2018 RM '000	1Q 2018 RM '000	Changes %
Revenue	106,373	104,741	1.6%
Operating profit	7,061	9,381	-24.7%
Profit before tax	6,274	8,542	-26.6%
Profit after tax	5,013	7,081	-29.2%
Profit attributable to owners of the Company	4,651	6,476	-28.2%
MYANMAR PLANT ("Daibochi Myanmar")			
Revenue	8,989	10,740	-16.3%
Profit before tax	1,013	1,513	-33%

For the three months ended June 30, 2018, group revenue increased marginally to RM106.37 million from RM104.74 million in the preceding quarter mainly attributed to higher export sales, offset by slower demand in the domestic market. Exports as a percentage of group revenue stood at 58.8% compared to 55.0% in the preceding quarter. Contribution from Malaysia plant amounting to RM98.46 million represents a marginal increase of 2.0% from RM96.68 million in the preceding quarter.

Despite the higher revenue, Group PBT decreased 26.6% to RM6.27 million from RM8.54 million in the preceding quarter mainly due to foreign currency exchange loss. The Group recognised foreign currency exchange loss of RM2.16 million in the current quarter as compared to a foreign currency exchange gain of RM660,000 in the preceding quarter, a change of RM2.82 million. Excluding the foreign currency exchange loss and share of results of an associate of RM145,000, the Group's adjusted PBT increased by 5.5% to RM8.29 million from RM7.86 million in the preceding quarter. The Group's adjusted PBT margin rose to 7.8% from 7.5% in the preceding quarter.

Daibochi Myanmar recorded 16.3% lower revenue of RM8.99 million compared to RM10.74 million in the preceding quarter, mainly due to a 9 days operations shut down in observance of their annual water festival celebration in April. Daibochi Myanmar's PBT decreased to RM1.01 million from RM1.51 million in the preceding quarter in tandem with lower revenue. Daibochi Myanmar recognised foreign currency exchange loss of RM183,000 in the current quarter as compared to a foreign currency exchange gain of RM135,000 in the preceding quarter. Excluding the impact of foreign currency exchange translation, the adjusted PBT margin rose to 13.3% from 12.8% in the preceding quarter.

Other than a slight increase in labour cost in line with yearly adjustment in wages, overall operational cost as a percentage of revenue for Daibochi Myanmar remained relatively unchanged. The Myanmar plant's lean operating structure bodes well for its strategy to capitalise on its manufacturing cost advantage to secure new customers in Myanmar and the Southeast Asia region.

B3 Prospects

The Group is confident of achieving commendable performance in the current financial year ending 31 December 2018 (FY2018), to be driven by expected increase in contribution from our Malaysia and Myanmar plants, and ongoing efforts to enhance efficiency and reduce wastage.

Growth at our Malaysia plant has started to accelerate with larger shipments of flexible packaging to the food and beverage (“F&B”) and fast moving consumer goods (“FMCG”) sectors both in Malaysia and export markets. The growth trend is expected to be sustained on increased consumption through population growth, urbanisation, and shifting consumer behaviour.

Additionally, the Myanmar plant commissioned an extrusion machine in the quarter under review, in line with our efforts to expand manufacturing capabilities to serve customers requirement and product range. With the extrusion machine now operational, we expect to commence delivery of major flexible packaging orders to a F&B customer in Myanmar. The Group is also in discussions with various domestic F&B and FMCG producers, and is optimistic that our technical expertise and cost advantage give us a keen competitive edge in winning their business.

While our growth prospects remain intact, the Group continues to face high prices for key raw materials such as solvent and polyester film. We aim to mitigate such impact by continuously engaging with employees on the production floor to drive efficiency and reduce wastage in our manufacturing process. We also strive to develop and supply higher value flexible packaging solutions to our customers as part of our efforts to enhance long term business sustainability.

Additionally, as part of our waste reduction efforts, the Group has a comprehensive waste management, tracking, and disposal programme to reduce our waste production and carbon footprint. For instance, the Group has been committed to zero landfill for the past ten years. Non-recyclable waste from our production processes are delivered to a third-party waste-to-energy incineration facility for conversion into alternative fuel types, effectively eliminating our use of landfills which are associated with increased greenhouse gas production.

Meanwhile, Daibochi also works closely with our MNC customers to assist them in achieving their packaging sustainability commitment. This includes commitment to develop packaging that are recyclable or reusable throughout their life cycle, as well as creating additional value from our production waste through recycling into plastic pellets or resin for other manufacturing uses.

In this regard, we are currently supporting a MNC customer to meet their commitment of ensuring 100% of their product packaging are recyclable or reusable by 2025. Looking ahead, as MNCs and other industry players increasingly emphasise product sustainability and environmental performance, we are confident that our experience in collaborating with our customers for product research and development will enable us to meet their sustainability objective.

B4 Profit Forecast or Profit Guarantee

No profit forecast or profit guarantee was provided.

B5 Profit Before Tax

Profit before tax is arrived at after (crediting)/charging:

	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)	(63)	(83)	(128)
Other operating income	(1,038)	(463)	(1,918)	(1,207)
(Gain)/loss on disposal of property, plant and equipment	(33)	(2)	98	(27)
Interest expense	932	670	1,794	1,358
Depreciation of property, plant and equipment	3,455	3,399	6,878	6,770
(Reversal of inventories write down)/Inventories write-down -net	(113)	378	2,056	1,880
Foreign exchange loss/(gain)	2,168	102	1,502	(59)
Foreign exchange (gain)/loss on derivatives	(5)	(158)	1	(191)

Other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.

B6 Income Tax Expense

	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:				
- Malaysian Tax	683	1,637	1,682	3,332
- Foreign Tax	136	37	184	94
- Under provision in prior year	110	-	110	-
	<u>929</u>	<u>1,674</u>	<u>1,976</u>	<u>3,426</u>
Deferred tax:				
- Current	332	(66)	746	(151)
	<u>1,261</u>	<u>1,608</u>	<u>2,722</u>	<u>3,275</u>

The effective tax rate for the financial quarter ended June 30, 2018 was lower than the statutory tax rate mainly due to availability of tax incentives.

B7 Status of Corporate Proposals

There were no corporate proposals announced as of the date of this quarterly report.

B8 Trade and other receivables

	30.06.2018	30.06.2017
	RM'000	RM'000
Trade receivables	58,446	50,534
Other receivables	4,585	4,351
Prepayments	522	671
Deposits	288	394
	<u>63,841</u>	<u>55,950</u>

The Group grant credit on various terms. Trade receivables disclosed above include amounts which are past due at the end of the reporting period but against which the Group has not recognised an allowance for impairment receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Analysis of trade receivables as of the end of the reporting period was:

	30.06.2018 RM'000	30.06.2017 RM'000
Neither past due nor impaired	51,610	44,774
Past due but not impaired:	6,836	5,760
1 month	5,877	5,280
2 months	641	117
3 months	107	315
More than 3 months	211	48
Trade receivables	58,446	50,534

Trade receivables that are neither past due nor impaired are creditworthy receivables with good payment records with the Group. None of the terms for the Group's trade receivables that are neither past due nor impaired have been renegotiated during the financial period.

B9 Group Borrowings

Details of the Group's borrowings as at the financial quarter were as follows:-

	As of 2nd quarter ended 30.06.2018					
	Long term		Short term		Total	
	Foreign Currency '000	RM '000	Foreign Currency '000	RM '000	Foreign Currency '000	RM '000
Secured:						
Finance lease liabilities in Ringgit Malaysia		990		1,921		2,911
Trust receipt in United States Dollar		-	139	542	139	542
Unsecured:						
Term loan in Ringgit Malaysia		7,799		5,422		13,221
Term loan in United States Dollar	2,341	9,463	2,250	9,095	4,591	18,558
Bankers' acceptances in Ringgit Malaysia		-		21,569		21,569
Bankers' acceptances in United States Dollar		-	4,941	19,972	4,941	19,972
Bank Overdraft		-		5		5
		<u>18,252</u>		<u>58,526</u>		<u>76,778</u>

	As of 2 nd quarter ended 30.06.2017					
	Long term		Short term		Total	
	Foreign Currency '000	RM '000	Foreign Currency '000	RM '000	Foreign Currency '000	RM '000
Secured:						
Finance lease liabilities in Ringgit Malaysia		2,909		2,904		5,813
Unsecured:						
Term loan in Ringgit Malaysia		6,902		4,347		11,249
Bankers' acceptances in Ringgit Malaysia		-		20,799		20,799
Bankers' acceptances in Australian Dollar		-	354	1,169	354	1,169
Bankers' acceptances in United States Dollar		-	3,364	14,448	3,364	14,448
Bank Overdrafts		-		216		216
		<u>9,811</u>		<u>43,883</u>		<u>53,694</u>

For the six months ended June 30, 2018, the Group's borrowings increased to RM76.78 million compared to RM53.69 million in the corresponding period in the previous year. The increase was mainly due to term loans drawn down of USD6.65 million in July 2017 and RM6.64 million in March 2018 respectively from financial institutions. These loans were to finance its investment in a newly incorporated subsidiary, Daibochi Packaging (Myanmar) Company Limited and acquisition of one unit 8 colour printing machine.

B10 Financial instruments

The Group enters into foreign currency forward contracts in the normal course of business to manage its exposure against foreign currency fluctuations on trade transactions.

As of June 30, 2018, the Group has the following outstanding derivatives:-

	Principal or Notional Amount RM'000	Fair Value RM'000	Net gain RM'000
Foreign currency forward contracts:-			
Less than 1 year	751	747	<u>4</u>

There is no change to the Group's financial risk management policies in managing these derivatives, its related accounting policies and the market risk associated with these derivatives since the last financial year.

B11 Material litigation

There was no material litigation as of the date of this quarterly report.

B12 Dividends

The Board is pleased to declare a second interim single tier dividend of 0.80 sen for the financial year ending December 31, 2018 and the said dividend will be paid on September 27, 2018 to shareholders whose names appear on the Company's Record of Depositors on September 6, 2018.

B13 Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the financial period under review attributable to owners of the Company by the weighted average number of ordinary shares in issue during the said financial period, adjusted by the number of ordinary shares repurchased and disposed during the financial period under review.

	3 months ended		6 months ended	
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Profit attributable to owners of the Company (RM'000)	4,651	5,045	11,127	10,813
Weighted average number of ordinary shares in issue ('000):				
Issued ordinary shares as of January 1	327,895	327,895	327,895	327,895
Effect of treasury shares held	(139)	-	(83)	(274)
Effect of exercise of warrants	4	-	3	-
Weighted average number of ordinary shares as of June 30	327,760	327,895	327,815	327,621
Basic earnings per share (sen)	1.42	1.54	3.39	3.30

Diluted earnings per ordinary share are not presented as the warrants are anti-dilutive where the average market price of ordinary shares during the period does not exceed the exercise price of the warrants.

By Order of the Board

Ms TAN GAIK HONG, MIA 4621

Secretary

Melaka

Dated: August 16, 2018

c.c. Securities Commission