

**CABNET HOLDINGS BERHAD (1121987-D)**  
**(Incorporated in Malaysia)**

**NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2019**

**PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARDS (“MFRS”) 134: INTERIM FINANCIAL REPORT**

**A1 Basis of Preparation**

This condensed consolidated interim financial statement (“Condensed Report”) is unaudited and has been prepared in accordance with 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”).

This Condensed Report should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018. The explanatory notes attached to the Condensed Report provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2018.

**A2 Significant Accounting Policies**

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted as disclosed in the audited financial statements for the financial year ended 31 December 2018, except for the adoption of the following that are effective for financial statements effective from 1 January 2019, as disclosed below:

<b>MFRS, Amendments to MFRS and IC Interpretation</b>
MFRS 16 Leases IC Interpretation 23 Uncertainty over Income Tax Treatments Amendments to MFRS 128 Long-term Interests in Associates and Joint Ventures Amendments to MFRS 9 Prepayment Features with Negative Compensation Amendments to MFRS 3 Annual Improvements to MFRS Standards 2015-2017 Cycle Amendments to MFRS 11 Annual Improvements to MFRS Standards 2015-2017 Cycle Amendments to MFRS 112 Annual Improvements to MFRS Standards 2015 - 2017 Cycle Amendments to MFRS 123 Annual Improvements to MFRS Standards 2015 - 2017 Cycle Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement Amendments to References to the Conceptual Framework in MFRS Standards

The adoption of the above pronouncements does not have any material financial impact to the Group except for MFRS 16 as disclosed in Note B10.

The Group has not early adopted any new or revised standards, amendments or IC Interpretations which are applicable to the Group that have been issued by the MASB but are not yet effective for the Group’s current financial year ending 31 December 2019.

**A3 Auditors’ Report of preceding annual financial statements**

The preceding year’s audited financial statements of the Group did not contain any qualification.

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**A4 Seasonal or Cyclical Factors Affecting Operations**

The principal business operations of the Group are not significantly affected by any seasonal or cyclical factors.

**A5 Unusual Items Affecting the Assets, Liabilities, Equity, Net Income or Cash Flows**

There were no unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group for the current financial quarter and financial period under review.

**A6 Material Changes in Estimates**

There were no changes in estimates that have a material effect in the current financial quarter and financial period under review.

**A7 Changes in Debt and Equity Securities**

There were no issuances, cancellations, repurchase, resale or repayment of debts and securities during the financial quarter and financial period under review.

**A8 Dividends paid**

Details of the dividend paid during the quarter under review are as follows:

First interim dividend for financial year	31 December 2018
Amount per share (single-tier)	0.8 sen
Approved and declared on	9 April 2019
Entitlement to dividends based on Record of Depositors as at	9 May 2019
Date paid	4 June 2019

**A9 Segmental Reporting**

(i) Operating Segments

Information about operating segments has not been reported separately as the Group’s revenue, profit or loss, assets and liabilities are mainly confined to a single operating segment, namely building management solutions which comprise structured cabling, extra low voltage (“ELV”) systems and information technology services as a complimentary offering to building management solutions.

(ii) Geographical Segment

No segmental information is provided on a geographical basis as the Group’s activities are conducted primarily in Malaysia.

**A10 Material Events Subsequent to the end of the Reporting Period**

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

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**A11 Changes in the Composition of the Group**

There were no changes in the composition of the Group in the current financial quarter and financial period under review.

**A12 Contingent Liabilities and Contingent Assets**

As at 30 June 2019, save as disclosed below, the Group has no pending material contingent liabilities that, upon becoming enforceable, may have a material impact on our financial performance and or position.

	<b>As at 30 June 2019</b>
	<b>RM’000</b>
Guarantees given to third parties in relation to contracts and trade performance	1,267

The guarantees are tender bonds (on submission of tender) and performance bond (upon award of contracts). To date, our Group has not experienced any enforcement of guarantees arising from non-performance of projects.

The Group has no contingent assets as at 30 June 2019.

**A13 Capital Commitment**

Capital commitment for the purchase of property, plant and equipment not provided for in the interim financial statements as at 30 June 2019 was as follow:

	<b>As at 30 June 2019</b>
	<b>RM’000</b>
Purchase of property, plant and equipment	2,950

**A14 Significant related party transactions**

There were no significant related party transactions in the current financial period under review.

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**PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA SECURITIES**

**B1 Review of Performance**

Comparison to preceding year corresponding quarter

For the second quarter ended 30 June 2019, the Group achieved consolidated revenue of RM14.01 million which was approximately 47.19% higher than the preceding year corresponding quarter. The increase in revenue was mainly due to the higher proportion of progress works for several major projects and higher revenue from sales of goods and services in the current quarter.

The gross profit for the current quarter has increased to RM3.09 million as compared to the preceding year corresponding quarter of RM2.55 million. However, gross profit margin has decreased compared to the preceding year corresponding quarter due to higher proportion of progress works from projects with lower profit margin and higher operating costs in the current quarter.

The Group recorded higher profit after tax of RM692,000 for the current quarter as compared to RM574,000 in the preceding year corresponding quarter. The increase in profit after tax was mainly contributed by the higher revenue offset by the increase in selling and administrative expenses in the current quarter.

Comparison to preceding year corresponding period

The Group's revenue of RM27.28 million for the current financial period increased by 37.55% as compared to the preceding year corresponding period of RM19.83 million. The increase in revenue was mainly due to the higher proportion of progress works for several major projects and higher revenue from sales of goods and services in the current financial period.

The Group recorded a marginal increase in gross profit in the current financial period. However, the Group's gross profit margin has decreased from 27.62% for the preceding year corresponding period to 21.58% for the current financial period. The Group's lower gross profit margins were mainly due to projects with lower profit margins and higher operating costs incurred in the current period.

The Group recorded a profit after tax of RM1.14 million for the current period as compared to RM1.47 million in the preceding year corresponding period. The decrease in profit after tax was mainly due to the decrease in gross profit margin and increase in selling and administrative expenses in the current financial period.

**B2 Material Changes in Profit before Taxation for the Current Quarter with Immediate Preceding Quarter**

	<b>Current Quarter 30 Jun 2019 RM'000</b>	<b>Preceding Quarter 31 Mar 2019 RM'000</b>
Revenue	<u>14,007</u>	<u>13,269</u>
Pre-tax profit before non-controlling interests	<u>1,062</u>	<u>683</u>

For the current quarter, the Group achieved revenue of RM14.01 million, representing an increase of 5.56% as compared to the preceding quarter ended 31 March 2019. The increase in revenue in the current quarter compared to the preceding quarter ended 31 March 2019 was mainly due to higher revenue from sales of goods and services. The pre-tax profit before non-controlling interests for the Group increased from RM683,000 for the preceding quarter to RM1.06 million for the quarter under review mainly due to higher revenue and decrease in selling and administrative expenses in the current quarter.

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**PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**B3 Prospects Commentary**

The Group will continue to focus and strengthen its existing business while exploring new market segment for sustainability. Order book remains positive with an upward trend in the current quarter. Nonetheless profit margin might be affected due to new market penetration and competitive business environment.

Amidst challenging business operating environment, the Group continues to take the necessary initiatives to sustain its business and performance as follows:

- (i) To expand the Group’s business portfolio in Information and Communication Technology (“ICT”) to healthcare market segment and Data Center Solutions;
- (ii) To increase revenue generation from maintenance services contracts for long term sustainability;
- (iii) To continue its efforts on the improvement of the efficiency and effectiveness of Group’s operations; and
- (iv) Be more selective by tightening the pre-qualification process of new sales opportunity.

Barring any unforeseen circumstances, with the challenging operating conditions, the Board remains cautious for the remaining periods for financial year ending 31 December 2019 despite the positive order book of the Group.

**B4 Variance of Actual Profit from Forecast Profit & Shortfall on Profit Guarantee**

There is no profit forecast prepared for public release and no profit guarantee provided by the Group for the current financial period.

**B5 Taxation**

	Quarter ended 30.06.2019	Year-to-date 30.06.2019
	RM'000	RM'000
Income tax:		
- current period	366	570
Deferred tax	4	40
Tax expense	370	610

The effective tax rate for the current quarter and current period are higher than the statutory tax rate of 24.0% mainly due to certain expenses not deductible for income tax purpose.

**B6 Status of Corporate Proposals**

There were no corporate proposals announced but not completed as at 21 August 2019 being a date not earlier than 7 days from the date of issue of this quarterly report.

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**PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**B7 Group Borrowings and Debt Securities**

As at 30 June 2019, our Group’s total outstanding borrowings, all of which are interest-bearing, were as follows:

	RM’000
<b>(a) Short-term debt</b>	
<u>Secured and guaranteed</u>	
Bankers’ acceptance	1,408
Finance lease liabilities	294
Term loan	27
<b>Total short-term debt</b>	<b>1,729</b>
<b>(b) Long-term debt</b>	
<u>Secured and guaranteed</u>	
Finance lease liabilities	476
Term loan	1,511
<b>Total long-term debt</b>	<b>1,987</b>
<b>Total loans and borrowings</b>	<b>3,716</b>

All the above borrowings are denominated in Ringgit Malaysia.

**B8 Changes in Material Litigation**

There is no pending material litigation as at 21 August 2019 being a date not earlier than 7 days from the date of this quarterly report except for the following:-

**(i) Shah Alam High Court (Construction Court) – Suit No. BA-24C-5-01/2019**

**Between Cabnet Systems (M) Sdn Bhd (“Plaintiff”), Dekad Kaliber Sdn Bhd (“1<sup>st</sup> Defendant”) and Rimarisan Sdn Bhd (“2<sup>nd</sup> Defendant”).**

By way of Originating Summons, on 17 January 2019, the Plaintiff had initiated an action under Section 30 of the Construction Industry Payment and Adjudication Act 2012 (CIPAA 2012) against the abovementioned Defendants to obtain full payment of the adjudication sum of RM1,155,874.10.

Prior to this action, the Plaintiff had pursued adjudication proceedings against Synergycentric Sdn Bhd (“Synergycentric”) and obtained Adjudication Decision on 1 November 2018 which was in favour of the Plaintiff. However, Synergycentric has gone into liquidation and has not made any settlement to the adjudication sum. As such, the Plaintiff pursues an action against the principals of Synergycentric, i.e. 1<sup>st</sup> and 2<sup>nd</sup> Defendants under Section 30 of the CIPAA 2012.

The case managements were held on 5 March 2019, 29 March 2019, 4 April 2019, 17 April 2019, 2 May 2019, 23 May 2019, 31 May 2019, 20 June 2019 as well as 20 August 2019 and the hearings were held on 31 May 2019 and 19 June 2019.

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**PART B – ADDITIONAL EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**B8 Changes in Material Litigation (Cont'd)**

**(i) Shah Alam High Court (Construction Court) – Suit No. BA-24C-5-01/2019 (Cont'd)**

- (1) The 1<sup>st</sup> Defendant (i.e. Dekad Kaliber) had filed for Extension of time (“EOT”) to allow its out of time affidavit to be accepted. In order to save time and cost, the Plaintiff had decided to request for cost instead of replying affidavit before the judge at the date of the hearing of the matter. On 2 May 2019, the Plaintiff had no objection on the EOT subject to cost which will be ventilated before the Judge. The Court then directed for the application for EOT to be heard on the same date as the hearing of the Originating Summons (“OS”), i.e. on 20 August 2019. The said hearing is now changed to case management due to change of Judge. Thus, a new Judge will hear the matter. The Court has directed parties to file in further submissions in reply by 10 September 2019 and also fixed date for clarification and/or hearing on and/or decision on 7 October 2019. In the event the Court is satisfied with the submissions put forth and no oral hearing is required, then the Court may also deliver its decision on 7 October 2019.
- (2) The 2<sup>nd</sup> Defendant (i.e. Rimarisan) had filed for striking out and EOT applications to reply the Plaintiff’s affidavit. On 19 June 2019, the 2<sup>nd</sup> Defendant has withdrawn its striking out application and the Court has allowed 2<sup>nd</sup> Defendant to file an affidavit in reply to the Plaintiff’s OS with no order to cost.
- (3) By way of OS, the case management for Construction Court Suit was conducted on 31 May 2019. Considering the fact that the 2<sup>nd</sup> Defendant’s striking out and EOT application have not been heard, the Court was unable to fix a hearing date for the Plaintiff’s OS. On 16 August 2019, the hearing for the OS which was initially fixed on 20 August 2019 is now changed to case management due to change of Judge. Thus, a new Judge will hear the matter. The Court has directed parties to file in further submissions in reply by 10 September 2019 and also fixed date for clarification and/or hearing on and/or decision on 7 October 2019. In the event the Court is satisfied with the submissions put forth and no oral hearing is required, then the Court may also deliver its decision on 7 October 2019.

**(ii) Shah Alam High Court (Civil Division) – Suit No. BA-22NCvC-28-01/2019**

**Between Cabnet Systems (M) Sdn Bhd (“Plaintiff”), Dekad Kaliber Sdn Bhd (“1<sup>st</sup> Defendant”) and Rimarisan Sdn Bhd (“2<sup>nd</sup> Defendant”).**

By way of a civil suit, on 17 January 2019, the Plaintiff had filed an action for breach of contract pursuant to the Sale and Purchase Agreement dated 18 July 2017 (“SPA”) between the Plaintiff and Synergycentric Sdn Bhd (“Synergycentric”) for a sum amounting to RM1,156,048.18.

This action is premised on Annexure 2 of the SPA. In Annexure 2 of the SPA, 1<sup>st</sup> Defendant has acknowledged and undertaken to pay directly to the Plaintiff upon Synergycentric’s failure under the SPA. To date, 1<sup>st</sup> Defendant has not made such payments.

The case management were held on 18 February 2019, 4 April 2019 and 17 April 2019. The hearings were held on 21 May 2019 and 29 July 2019 as well as the trial was held on 16 August 2016.

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**B8 Changes in Material Litigation (Cont'd)**

**(ii) Shah Alam High Court (Civil Division) – Suit No. BA-22NCvC-28-01/2019 (Cont'd)**

- (1) The hearing for the 1<sup>st</sup> Defendant's Striking Out for the Writ Action was held on 21 May 2019. On 16 August 2019, the 1<sup>st</sup> Defendant's application to strike out was dismissed with cost of RM5,000.00 to be paid by the 1<sup>st</sup> Defendant. The grounds for dismissing the Striking Out are as follows: -
  - the Plaintiff's Writ Action can co-exist with the Plaintiff's Action under Section 30 CIPAA; and
  - the Court could not find any abuse of the Court's process and the action is not frivolous.
- (2) The Plaintiff had filed its reply to oppose the 2<sup>nd</sup> Defendant's amendment application on 3 May 2019 and the 2<sup>nd</sup> Defendant had then filed its Amendment of Defence on 24 May 2019. The hearing was fixed and heard on 29 July 2019. The Plaintiff had agreed to the 2<sup>nd</sup> Defendant's amendments with request for cost. The Court has allowed the 2<sup>nd</sup> Defendant's amendments and cost amounting to RM2,000/- to be paid by the 2<sup>nd</sup> Defendant to the Plaintiff within thirty (30) days.
- (3) As the Striking Out has been dismissed, the Court has directed the following: -
  - Date of Trial is fixed on 8, 9 and 10 January 2020;
  - Pleadings, Common Bundle, Summary of Facts, Issues to Be tried, Agreed Facts and List of Witnesses to be filed on 9 December 2019; and
  - Witness Statement to be filed on 2 January 2020.

**B9 Dividends**

No dividends have been declared, recommended or paid during the quarter under review.

**B10 Adoption of MFRS 16 - Leases**

Upon adoption of MFRS 16, the Group is required to account for major part of its operating leases in the statement of financial position by recognising the 'right-of-use' assets and the lease liability, thus increasing the assets and liabilities of the Group.

The Group has assessed the financial impact on its financial statements upon initial application of MFRS 16. As allowed by the transitional provision of MFRS 16, the Group has elected the modified retrospective approach with no restatement of comparative and cumulative adjustments resulting from the initial application of MFRS 16 to be recognised in retained earnings and reserves as at 1 January 2019, as disclosed below:

	<b>Adjustment at 1 January 2019 RM'000</b>
Increase in right-of-use assets	177
Decrease in retained earnings	18
Increase in lease liabilities	(195)



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**B11 Earnings per Share**

The basic and diluted earnings per share are calculated as follows:

	<b>Quarter ended 30.06.2019</b>	<b>Year-to-date 30.06.2019</b>
Profit for the period attributable to ordinary holders of the Company (RM'000)	706	1,155
Weighted average number of ordinary shares in issue ('000)	178,750	178,750
Earnings per share (Basic & Diluted) (sen)	0.39	0.65

**B12 Derivatives**

The Group did not enter into any derivatives during the current quarter under review.

**B13 Disclosure of gains/losses arising from fair value changes of financial liabilities**

The Group did not have any financial liabilities measured at fair value through profit and loss for the current quarter under review.

**B 14 Authorised for issue**

This interim financial statement was authorised by the Board of Directors in accordance with the resolution of the Directors on 27 August 2019.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)  
Company Secretary  
Johor Bahru  
Date: 27 August 2019  
c.c. Securities Commission