

CABNET HOLDINGS BERHAD
Registration No: 201401045803 (1121987-D)
(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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 (“FYE”) 31 December 2019. 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 FYE 31 December 2019.

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 FYE 31 December 2019, except for the adoption of the following that are effective for financial statements effective from 1 January 2020, as disclosed below:

MFRS, Amendments to MFRS and IC Interpretation
<ul style="list-style-type: none">• Amendments to References to the Conceptual Framework in MFRS Standards• Amendments to MFRS 3 Business Combination – Definition of a Business• Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material• Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures – Interest Rate Benchmark Reform

The adoption of the above pronouncements does not have any material financial impact to the Group.

A3 Auditors’ Report of preceding annual financial statements

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

A4 Seasonal or Cyclical Factors Affecting Operations

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

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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

No dividend has been paid during the current quarter under review.

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

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.

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A12 Contingent Liabilities and Contingent Assets

As at 30 June 2020, 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.

	As at 30 June 2020
	RM'000
Guarantees given to third parties in relation to contracts and trade performance	1,109

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 2020.

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 2020 was as follow:

	As at 30 June 2020
	RM'000
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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NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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

	<u>Individual Quarter</u>		%
	Current year quarter ended 30 June 2020	Preceding year corresponding quarter ended 30 June 2019	
<u>Revenue</u>	RM'000	RM'000	
Construction contracts	2,306	6,221	-62.93%
Sales of goods and services	5,732	7,786	-26.38%
Total	8,038	14,007	-42.61%

Group revenue declined by 42.61% as compared to the preceding year corresponding quarter mainly due to temporary suspension of business operations from 18 March 2020 to 4 May 2020 in order to comply with the Movement Control Order (“MCO”) enforced by the Malaysian Government. Despite the Group resuming its operations and business during the Conditional MCO, the construction progress regains at slower pace due to compliance of new standard operating procedures (“SOP”) introduce by Government and disruption of supply chain. As a result, revenue from construction contracts has slump by 62.93% and revenue from sales of goods and services also fall by 26.38% compared to preceding year corresponding quarter.

The decline in revenue in turn caused a significant reduction in gross profit contributions, which was insufficient to offset the fixed overhead i.e. labour cost and maintenance cost for projects. Consequently, the Group recorded loss before tax of approximately RM1.10 million in the current quarter under review.

Comparison to preceding year corresponding period

	<u>Cumulative Quarter</u>		%
	Current year quarter ended 30 June 2020	Preceding year corresponding quarter ended 30 June 2019	
<u>Revenue</u>	RM'000	RM'000	
Construction contracts	9,039	13,820	-34.59%
Sales of goods and services	11,284	13,456	-16.14%
Total	20,323	27,276	-25.49%

Group revenue declined by 25.49% as compared to the preceding year corresponding period, mainly due to the 34.59% decline in revenue from construction contracts which was heavily impacted by the temporary suspension of project site operations from 18 March 2020 until 4 May 2020.

Consequently, the Group recorded loss before tax of approximately RM1.12 million for the current period under review, principally due to the steep fall of gross profit which triggered by revenue downturn. Additionally, finance cost was higher compared to preceding year corresponding period due to additional of term loan interest for property acquisition as well as trade finance interest for material procurement.

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(Incorporated in Malaysia)

NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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

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

	Current Quarter 30 June 2020 RM'000	Preceding Quarter 31 March 2020 RM'000
Revenue	<u>8,038</u>	<u>12,285</u>
Pre-tax (loss)/profit before non-controlling interests	<u>(1,101)</u>	<u>(17)</u>

For the current quarter, the Group achieved revenue of RM8.04 million which is approximately 34.57% lower as compared to the preceding quarter ended 31 March 2020. The decline in revenue mainly due to construction progress was affected by the MCO enforced by Malaysian Government which had led to temporary suspension of business operations from 18 March 2020 to 4 May 2020.

The Group reported a pre-tax loss before non-controlling interests of approximately RM1.10 million mainly due to significantly reduce in revenue and gross profit.

B3 Prospects Commentary for the financial year ending 31 December 2020

With the commencement of the Recovery MCO on 10 June 2020, the Group has seen a gradual improvement on Group's businesses and operations, however, the improvement is slow due to compliance of new SOP introduce by Government from time to time. Nevertheless, Malaysia's Gross Domestic Product ("GDP") growth is expected to be negative throughout year 2020. The exact impact of Coronavirus Pandemic ("Covid-19") remains difficult to estimate as it will depend on the duration and the economic consequences of this crisis as well as the speed of recovery of the business.

Despite the unprecedented challenging operating environment, the Group's order book remains positive with an upward trend in the current quarter. More emphasis would place on the conversion of current order book into revenue in order to narrow down the profitability gap. Further, 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, Data Center Solutions and overseas expansion;
- (ii) To increase revenue generation from maintenance services contracts and upgrade projects on existing building for sustainability;
- (iii) To continue its efforts on the improvement of the efficiency and effectiveness of Group's operations;
- (iv) Be more selective by tightening the pre-qualification process of new sales opportunity; and
- (v) Take initiatives to reduce operating expenses via tightening of manpower and project cost management.

Moving forward, the Board will continue to take all necessary precautions and pragmatic approach in its strategic and operational planning in order to generate a satisfactory performance for the financial year ending 31 December 2020.

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.

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NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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

B5 Taxation

	Quarter ended 30.06.2020	Year-to-date 30.06.2020
	RM'000	RM'000
Income tax:		
- current period	74	202
Deferred tax assets	(268)	(338)
Tax income	(194)	(136)

The Group's effective tax rate for the current quarter and current financial period under review is lower than the statutory tax rate of 24% mainly due to certain non-tax deductible expenses for income tax purpose.

B6 Status of Corporate Proposals

There were no corporate proposals announced but not completed as at 18 August 2020 being a date not earlier than 7 days from the date of issue of this quarterly report.

B7 Group Borrowings and Debt Securities

As at 30 June 2020, our Group's total outstanding borrowings, all of which are interest-bearing, were as follows:

	RM'000
(a) Short-term debt	
<u>Secured and guaranteed</u>	
Bankers' acceptance	5,522
Finance lease liabilities	441
Term loans	261
Total short-term debt	6,224
(b) Long-term debt	
<u>Secured and guaranteed</u>	
Finance lease liabilities	940
Term loans	4,188
Total long-term debt	5,128
Total loans and borrowings	11,352

All the above borrowings are denominated in Ringgit Malaysia.

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NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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

B8 Changes in Material Litigation

There is no pending material litigation as at 18 August 2020 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 (“1st Defendant”) and Rimarisan Sdn Bhd (“2nd 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. 1st and 2nd 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, 20 August 2019, 20 January 2020, 17 February 2020, 26 February 2020, 2 March 2020, 31 March 2020 as well as 11 June 2020 and the hearings were held on 31 May 2019, 19 June 2019, 7 October 2019, 18 December 2019 and 8 April 2020.

- (1) On 15 January 2020, the 2nd Defendant made a formal application to stay of execution for its appeal. On 20 January 2020, the Judge has granted extension of the interim stay until 26 February 2020. Further to the extension of the interim stay, on 26 February 2020 the Judge decided to grant a conditional stay until the disposal of 2nd Defendant’s appeal. The condition was to 2nd Defendant to open a joint solicitors account and deposit the sum of RM1,204,547.60 into the said account on or before 8 April 2020. In the event such sum has not been deposited, the conditional stay will lapse on 8 April 2020.
- (2) On 17 January 2020, the Plaintiff then filed an appeal on the part of the Judge’s decision where only the Adjudicated Sum is to be paid excluding the Adjudication cost of RM44,000.90. Both the Plaintiff and the 2nd Defendant’s appeal will be heard together on 31 March 2020.
- (3) On 31 March 2020, the Court then set a further case management date on 11 June 2020 for Plaintiff to file a Supplemental Record of Appeal with the Notes of Proceeding.

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NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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)

- (4) On 2 April 2020, 2nd Defendants has written to the Court to request for an extension of the conditional stay for 1 month after the MCO period. During the hearing held on 8 April 2020, the Court was of the view that the MCO period deems as special circumstances that will lead to an extension and/or alteration of the conditional stay order given previously. However, the Court has denied 2nd Defendant's request and allowed for an extension of 1 month from 8 April 2020 to 8 May 2020 for 2nd Defendant to deposit the said sum into the Plaintiff's solicitor's account. This is to ensure that parties do not have to risk to going to the bank and breaching any MCO regulations. Cost of RM5,000.00 is to follow the cause of events at the Appeal.
- (5) On 8 May 2020, the 2nd Defendant did not deposit the said sum into Plaintiff's solicitor's account upon the expiring of conditional stay.
- (6) On 29 May 2020, a statutory notice of demand had been issued to 2nd Defendants pursuant to Section 466(1)(a) of the Companies Act 2016.
- (7) The case management held on 11 June 2020, the Court has fixed the hearing date on 8 January 2021 and given following directions: -
 - a) Common Core Bundle, Submissions and Executive Summary must be filed by 8 December 2020;
 - b) Submission in Reply by 23 December 2020; and
 - c) Next case management is fixed on 28 December 2020 for parties to update on status before hearing.

(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 (“1st Defendant”) and Rimarisan Sdn Bhd (“2nd 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, 1st Defendant has acknowledged and undertaken to pay directly to the Plaintiff upon Synergycentric's failure under the SPA. To date, 1st Defendant has not made such payments.

The case management were held on 18 February 2019, 4 April 2019, 17 April 2019 and 8 January 2020, 24 February 2020, 31 March 2020 and 15 May 2020 the hearings were held on 21 May 2019, 29 July 2019 and 14 July 2020 as well as the trial was held on 16 August 2016.

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NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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)

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

- (1) On 3 January 2020, the 1st Defendant had filed for a stay pending appeal application, whereas the 2nd Defendant filed a striking out application on 24 December 2019. The Court has fixed a hearing on 6 April 2020 to determine both the 1st and 2nd Defendant's applications. After which, the Court will only determine the trial dates after the hearing on 6 April 2020.
- (2) The case management was held on 24 February 2020, the Court has fixed the next case management date on 9 July 2020 and the hearing for the appeal is fixed on 22 July 2020.
- (3) In light of the MCO, the Court has adjourned the hearing fixed on 6 April. The Court has now fixed a case management on 15 May 2020 for parties to get directions on the filing of the written submissions for both the applications and to fix new hearing date.
- (4) The case management was held on 15 May 2020, the Court has given following directions: -
 - a) Hearing for the 1st Defendant's Stay Application and 2nd Defendant's Striking Out Application set on 14 July 2020
 - b) Main Submission to be filed on or before 26 June 2020; and
 - c) Reply Submission to be filed on or before 7 July 2020.
- (5) Further to the hearing held on 14 July 2020 for the 1st Defendant's Stay Application and 2nd Defendant's Striking Out Application ("Applications"), the Court's decision for the said Applications will be delivered on 1 September 2020.

B9 Dividends

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

B10 Loss per Share

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

	Quarter ended 30.06.2020	Year-to-date 30.06.2020
Loss for the period attributable to ordinary holders of the Company (RM'000)	(898)	(960)
Weighted average number of ordinary shares in issue ('000)	178,750	178,750
Loss per share (Basic & Diluted) (sen)	(0.50)	(0.54)

B11 Derivatives

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

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NOTES TO THE INTERIM FINANCIAL REPORT – SECOND QUARTER ENDED 30 JUNE 2020

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

B12 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 13 Authorised for issue

This interim financial statement was authorised by the Board of Directors in accordance with the resolution of the Directors on 25 August 2020.

By Order of the Board,

Lee Wee Hee (MAICSA 0773340)
SSM Practicing Certificate No. 201908004010
Company Secretary
Johor Bahru
Date: 25 August 2020
c.c. Securities Commission