EASTLAND EQUITY BHD ("EASTLND")
INTERIM REPORT FOR THE FORTH QUARTER ENDED 31 MARCH 2018

EXPLANATORY NOTES

A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with the reporting requirements of Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board ("MASB") and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Group's annual audited financial statements for the financial year ended 31 December 2017, which have been prepared in accordance with the Financial Reporting Standards ("FRSs") and the Companies Act 2016. These explanatory notes provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2017.

The financial statements of the Group for the three months period ended 31 March 2018 are the first set of interim financial statements prepared in accordance with the MFRS Framework issued by MASB. The MFRS Framework was introduced by MASB in order to fully converge Malaysia's existing Financial Reporting Standards Framework with the International Financial Reporting Standards ("IFRS") framework issued by the International Accounting Standards Board.

The MFRSs Framework is mandatory for adoption by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 Agriculture and/or IC Int 15 Agreements for Construction of Real Estate ("Transitioning Entities"). The Transitioning Entities are given an option to defer the adoption of MFRSs Framework and shall apply the MFRSs Framework for annual periods beginning on or after 1 January 2018.

Accordingly, the Group and the Company which are Transitioning Entities have chosen to defer the adoption of MFRSs framework. As such, the Group and the Company is required to prepare their first MFRSs financial statements using MFRSs framework for financial year ending 31 December 2018. Upon the adoption of MFRS, the Group and the Company will be applying MFRS1 "First -time Adoption of MFRS". MFRS 1 requires comparative information to be restated as if the requirements of MFRSs have always been applied, except when MFRS 1 allows certain elective exemptions from such full retrospective or prohibits retrospective application of some aspects of MFRSs.

The main effects arising from the transition to MFRSs Framework are discussed below.

- MFRS 9 "Financial Instruments"

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main changes are:

  - For financial liabilities classified as fair value through profit or loss ("FVTPL"), the fair value changes due to own credit risk should be recognised directly to other comprehensive income. There is no subsequent recycling to profit or loss.

  - When a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, being the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised immediately in profit or loss

MFRS 9 introduces an expected credit loss model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit loss model is forward-looking and eliminated the need for a trigger event to have occurred before credit losses are recognised.

The Group has assessed the impact of the adoption of MFRS 9 and concluded that the adoption does not have any significant impact to the financial performance or position of the Group.

- MFRS 15 “Revenue from Contracts with Customers”

  MFRS 15 “Revenue from Contracts with Customers” effective from 1 January 2018 replaces MFRS 118 “Revenue” and related interpretations. The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

  (i) identify the contracts with a customer;
  (ii) identify the performance obligation in the contract;
  (iii) determine the transaction price;
  (iv) allocate the transaction price to the performance obligations in the contract;
  (v) recognise revenue when (or as) the entity satisfies a performance obligation.

  MFRS 15 also includes new disclosures that would result in an entity providing users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

  The Group’s assessment of MFRS 15 is on-going. The Group expects to fully comply with the requirements of the MFRS framework for the financial year ending 31 December 2018.

A2 Audit qualifications

The auditors’ report on the audited annual financial statements for the financial year ended 31 December 2017 was not subject to any qualification.

A3 Seasonality or cyclicality of operation

For the financial period under review, the operations of the Group are not subject to material seasonal or cyclical fluctuations except for the Hospitality segment.

A4 Changes in the composition of the Group

For the financial period under review, there were no material changes in the composition of the Group.

A5 Unusual items

There were no unusual items affecting assets, liabilities, equity, net income or cashflows because of their nature, size or incidence during the financial period under review.

A6 Changes in estimates

There were no material changes in estimates in the current quarter results.

A7 Debt and equity securities

There were no issuance, repurchase and repayment of debt and equity securities for the financial period under review.

A8 Dividends paid

There was no dividend paid for the financial period under review.

A9 Segmental reporting

The Group's segmental report for the financial period to date is as follows:

	Investment properties RM'000	Leasing & financing RM'000	Hospitality RM'000	Investment holding RM'000	Property development RM'000	Others RM'000	Total RM'000
Revenue	891	-	3,253	-	-	-	4,144
Results							
Segment profit/(loss)	(200)	(2)	(668)	(1,037)	(128)	(3)	(2,038)
Interest income	9	-	-	-	1	-	10
Finance cost	(66)	-	-	(391)	-	-	(457)
Loss before taxation							(2,485)
Income tax expense							-
Loss for the period							(2,485)

A10 Carrying amount of revalued assets

The carrying value of land and building is based on the valuation incorporated in the annual financial statements for the year ended 31 December 2017 and valuation performed as of date of this report.

A11 Subsequent material event

There were no material events subsequent to the end of the period that have not been reflected in the financial statements for the period.

A12 Changes in contingent liabilities and contingent assets

Save for disclosures that were made in the audited financial statements for the year ended 31 December 2017, there were no material changes in the contingent liabilities and contingent assets of the Group.

A13 Capital Commitments

During the financial period under review, there were no material capital commitments that the Group had contracted for and approved.

ADDITIONAL INFORMATION AS REQUIRED BY APPENDIX 9B OF THE BURSA MALAYSIA SECURITIES BHD'S LISTING REQUIREMENTS

B1 Review of performance

Financial review for current quarter and financial year to date

	Individual Period			Cumulative Period		
	Current Year Quarter	Preceeding Year Corresponding Quarter	Changes (%)	Current Year To-Date	Preceeding Year Corresponding Period	Changes (%)
	31 Mar 2018 (RM '000)	31 Mar 2017 (RM '000)		31/03/2018 (RM '000)	31/03/2017 (RM '000)	
Revenue	4,144	5,792	(28)	4,144	5,792	(28)
Operating Loss	(2,028)	(1,683)	20	(2,028)	(1,683)	20
Loss Before Interest and Tax	(2,028)	(1,683)	20	(2,028)	(1,683)	20
Loss Before Tax	(2,485)	(2,150)	16	(2,485)	(2,150)	16
Loss After Tax	(2,485)	(2,250)	10	(2,485)	(2,250)	10
Loss Attributable to Ordinary Equity Holders of the Parent	(2,485)	(2,250)	10	(2,485)	(2,250)	10

The Group recorded a revenue of RM4.14 million for the current quarter, compared to the revenue of RM5.79 million recorded in previous year corresponding quarter.

In the Investment Properties segment, the Group recorded a revenue of RM0.89 million and RM1.52 million in the current quarter and previous year corresponding quarter respectively. The drop is mainly attributed to the transfer of management of the condominium and shopping complex building to Kota Sri Mutiara Management Corporation in April 2017.

In the Hospitality segment, the Group registered a revenue of RM3.25 million in the current quarter as compared to previous year corresponding quarter of RM3.73 million. The reduction in revenue is mainly attributed to the reduction in room sales (due to drop in average room rate RM 207 in Q1 2018 versus RM 237 in Q1 2017) and foods and beverages sales.

In the Property Development segment, the Group did not record any new sale in the current quarter while last year's corresponding quarter revenue was RM 0.54 million from sale of shop lot in Phase 1 of Bandar Tasek Raja.

B2 Material changes in the loss before taxation

Financial review for the current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter	Changes (%)
	31 Mar 2018 (RM '000)	31 Dec 2017 (RM '000)	
Revenue	4,144	1,974	110
Operating Loss	(2,028)	(1,846)	10
Loss Before Interest and Tax	(2,028)	(1,846)	10
Loss Before Tax	(2,485)	(2,426)	2
Loss After Tax	(2,485)	(1,950)	27
Loss Attributable to Ordinary Equity Holders of the Parent	(2,485)	(1,950)	27

The Group recorded loss before tax of RM 2.49 million and RM 2.43 million for the current and previous quarter respectively. The higher current quarter loss is mainly due to the fund raising exercise expenses relating to the rights issue which is further explained under B3 and B4.

B3 Group prospects

For the financial year 2018, the Group is expected to continue to focus on the current businesses in Investment Property segment, Hospitality segment and Property Development segment. The Group had launched Phase 2 of the Bandar Tasek Raja at the beginning of the year. Consistent with the plan to turnaround the Group, it has on 6 November 2017 announced a proposed fund raising exercise and a proposed acquisition of a land at a strategic location within the high-growth area of central Kota Kinabalu. This announcement includes a proposed development project on the land for a mixed commercial development consisting of a 28 storey (318 rooms) 3-star hotel and another block of 28 storey (354 units) hotel suites with 4 levels of retail lots with estimated gross development value and gross development costs of approximately RM356.92 million and RM282.05 million respectively. This project is expected to commence by Q4 2018.

B4 Variance of profit forecast and profit guarantee

Not applicable.

B5 Corporate proposal

The Company made an announcement on 6 November 2017 of a corporate proposal to undertake a renounceable rights issue of up to 294,801,570 new ordinary shares in Eastland (“Eastland Shares”) (“Rights Shares”) together with up to 147,400,785 free detachable warrants (“Warrants”) on the basis of 6 Rights Shares for every 5 existing Eastland Shares held and 1 Warrant for every 2 Rights Shares subscribed for, on an entitlement date to be determined and announced later (“Entitlement Date”) (“Proposed Rights Issue with Warrants”).

In the same announcement, FBO Land (Setapak) Sdn Bhd (“FBO”), a wholly-owned subsidiary of Eastland, entered into a conditional sale and purchase agreement with P.C.K. Properties Sdn Bhd (“PCK” or the “Vendor”) for the acquisition of a parcel of leasehold development land situated at Jalan Pantai, Kota Kinabalu, Sabah measuring approximately 2,181.80 square meters (“Land”), for a purchase consideration of RM23,265,000 (“Purchase Consideration”) to be satisfied in full via cash (“SPA”) (“Proposed Acquisition”).

Further details of the Proposed Rights Issue with Warrants and Proposed Acquisition, referred to collectively as the “Proposals” are set out in the Company’s announcement on 6 November 2017.

The Company has submitted the Proposal to Bursa Malaysia and has received comments from Bursa Malaysia. The Principal Adviser is currently preparing for the re-submission of the Proposals to Bursa Malaysia.

B6 Taxation

	3 months ended 31-Mar-18 RM'000	3 months ended 31-Mar-17 RM'000	Year-to-date 31-Mar-18 RM'000	Year-to-date 31-Mar-17 RM'000
Tax (expense)/income				
Income tax				
-current year	-	(100)	-	(100)
-prior year	-	-	-	-
Deferred tax				
-current year	-	-	-	-
-prior year	-	-	-	-
	-	(100)	-	(100)

B7 Group borrowings and debts securities

The Group borrowings, all denominated in Ringgit Malaysia, as at 31 December 2017 are as follows: -

	31/3/2018		31/12/2017	
	Short term RM'000	Long term RM'000	Short term RM'000	Long term RM'000
Secured				
Hire-purchase payables	105	179	103	206
Term Loan	1,734	27,118	1,734	26,728
Bank overdraft	30,091	-	30,123	-
	31,930	27,297	31,960	26,934

B8 Changes in material litigation

There were no material litigations for the financial period under review other than a suit by FBO Land (Setapak) Sdn Bhd (“FBOL”) as described below:

FBOL, a wholly owned subsidiary of the Company had on 3 March 2006 filed a suit against the previous management and nine other parties (“the defendants”) for the return of 9 units of shoplots belonging to FBOL. On 30 April 2012, the High Court ruled in favour of FBOL allowing its claim with costs. The defendants had filed an appeal to the Court of Appeal against the High Court ruling. On 1 April 2015, the Court of Appeal held hearing and heard submissions from FBOL and the defendants. On 15 May 2015, The Court of Appeal allowed the defendants’ appeal. FBOL has filed for Motion for Leave from the Federal Court to appeal against the Court of Appeal’s decision. In addition to the above suit for the return of 9 units of shoplots, FBOL had also filed for Assessment of Damages to claim from the defendants for the recovery of rental income generated from the 9 units of shoplots from the time the shoplots were transferred from FBOL. On 18 April 2018, the Federal Court has dismissed FBOL’s application with cost of RM20,000.

B9 Dividend

There was no dividend paid for the financial period under review.

B10 Earnings per shares

	3 months ended 31-Mar-18 RM'000	3 months ended 31-Mar-17 RM'000	Year-to-date 31-Mar-18 RM'000	Year-to-date 31-Mar-17 RM'000
Net loss attributable to equity holders of the Company				
- from continuing operation	(2,485)	(2,250)	(2,485)	(2,250)
	(2,485)	(2,250)	(2,485)	(2,250)
Number of ordinary share in issue ('000)	245,668	245,668	245,668	245,668
Loss per share (sen)				
Basic, loss from				
- continuing operations	(1.01)	(0.92)	(1.01)	(0.92)
Basic, loss for the period	(1.01)	(0.92)	(1.01)	(0.92)

B11 Loss for the period

	Current Quarter RM'000	Year-to-date RM'000
This is arrived at after (charging)/crediting:		
Interest income	11	11
Interest expense	(457)	(457)
Depreciation and amortization	(1,026)	(1,026)
Foreign exchange loss (unrealised)	(30)	(30)
Foreign exchange gain (realised)	1	1

Other disclosure items pursuant to Appendix 9B, Part A(16) of the Listing Requirements of Bursa Malaysia Securities Berhad are not applicable.