**KECK SENG (MALAYSIA) BERHAD**
**(Company no. 8157-D)**
(Incorporated in Malaysia)

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# INTERIM FINANCIAL REPORT FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2018

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**EXPLANATORY NOTES PURSUANT TO MFRS 134**

## A1. Accounting Policies and Basis of Preparation

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

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 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 year ended 31 December 2017.

The financial statements of the Group for the financial period ended 30 September 2018 is prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") Framework. The date of transition to MFRS Framework was on 1 January 2017.

The Group has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2017 and throughout all comparable interim periods presented, as if these policies had always been in effect. Comparative information in these financial statements have been restated to give effect to these changes and the financial impact on transition from Financial Reporting Standards in Malaysia to MFRS are disclosed as follows:-

**i) Bearer plants**
Prior to the adoption of MFRS 141 "Agriculture" and the revised standard, Agriculture: Bearer Plants (Amendments to MFRS 116 "Property, Plant and Equipment" and MFRS 141 "Agriculture"), bearer plants were charged as replanting expenditure and recognised in profit or loss in the year the expenditures are incurred. Under MFRS 116, replanting expenditures are capitalised. On maturity, these expenditures are amortised over the useful life of the bearer plants.

**ii) Biological assets**
Prior to the adoption of the MFRS 141 Agriculture: Bearer Plants, biological assets were not recognised. With the adoption of the MFRS 141, the biological assets within the scope of MFRS 141 are measured at fair value less costs to sell. The changes in fair value less costs to sell of the biological assets are recognised in profit or loss.

## A1. Accounting Policies and Basis of Preparation (cont'd)

### iii) Financial instruments

Under the MFRS 1, the Group has elected the exemption option which allows the Group not to restate comparative information in the year of initial application. The Group continues to apply FRS 139 "Financial Instruments: Recognition and Measurement" and FRS 7 "Financial Instruments: Disclosures" for the comparative information. To align the carrying amount of financial assets and financial liabilities under the previous FRS 139 with MFRS 9, RM 58.6 million was written-back for the impairment of quoted investment made earlier to retained earnings and fair value reserve as at 1 January 2018.

### iv) Revenue from contracts with customers

With the 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.

Property development costs and land held for property development are measured at the lower of costs and net realisable value in accordance with MFRS 102 "Inventories". The provision for foreseeable losses on the development of affordable housing previously recognised under FRSIC 17 "Development of Affordable Housing" have been reversed and the comparatives are restated accordingly.

The impact of the changes in accounting policy on the financial statements as a result of the transition to the MFRS Framework are as follows:

### Condensed Consolidated Statement of Financial Position

| **As at 1 January 2017** | Previously Stated RM'000 | Increase / (Decrease) RM'000 | Restated RM'000 |
|---|---|---|---|
| Bearer plants | - | 7,970 | 7,970 |
| Biological assets | - | 1,240 | 1,240 |
| Land held for property development | 256,474 | (11,809) | 244,665 |
| Inventories | 186,532 | (177) | 186,355 |
| Provisions | 12,589 | (12,589) | - |
| Deferred tax assets | 3,483 | (200) | 3,283 |
| Deferred tax liabilities | 26,016 | 2,010 | 28,026 |
| Retained earnings | 1,572,705 | 7,592 | 1,580,297 |
| Non-controlling interests | 143,825 | 11 | 143,836 |

## A1. Accounting Policies and Basis of Preparation (cont'd)

### Condensed Consolidated Statement of Financial Position (cont'd)

| **As at 31 December 2017** | Previously Stated RM'000 | Increase / (Decrease) RM'000 | Restated RM'000 |
|---|---|---|---|
| Bearer plants | - | 8,191 | 8,191 |
| Biological assets | - | 544 | 544 |
| Land held for property development | 259,362 | (11,545) | 247,817 |
| Property development costs | 14,898 | (233) | 14,665 |
| Inventories | 131,282 | (34) | 131,248 |
| Provisions | 12,589 | (12,589) | - |
| Deferred tax assets | 5,003 | (156) | 4,847 |
| Deferred tax liabilities | 16,996 | 1,940 | 18,936 |
| Retained earnings | 1,559,628 | 7,430 | 1,567,058 |
| Non-controlling interests | 141,444 | (14) | 141,430 |

### Condensed Consolidated Statement of comprehensive income

| **For the period ended 30 September 2017** | Previously Stated RM'000 | Increase / (Decrease) RM'000 | Restated RM'000 |
|---|---|---|---|
| Cost of sales | (730,934) | (235) | (731,169) |
| Other income* | 24,510 | 28,568 | 53,078 |
| Other expenses | (68,093) | 171 | (67,922) |
| Profit before tax | 4,845 | 28,504 | 33,349 |
| Income tax expense | (3,430) | (6,809) | (10,239) |
| Profit net of tax | 1,415 | 21,695 | 23,110 |

* Other than the effects from adoption of MFRS mentioned above, the increase of RM 28.5 million restated as other income is the result of measuring currency options at fair value.

## A2. Status of Audit Qualification

Not applicable as the audited financial statements for the year ended 31 December 2017 were not qualified.

## A3. Seasonality or Cyclicality of Interim Operations

The operations of the Group were not significantly affected by seasonality and cyclicality factors.

## A4. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no other items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence for the financial quarter under review.

## A5. Material Changes in Estimates

Other than disclosed in Note A1, there were no other items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence for the financial quarter under review.

## A6. Debts and Equity Securities

Share Buy-Back / Treasury Shares

The Company's shareholders had on 29 June 1999 approved the share buy-back exercise during the Extraordinary General Meeting ("EGM"). Subsequently, mandates were renewed at the last AGM which was on 30 May 2018.

Summary of the share buy-back / disposal as at the current financial year-to-date are as follows:-

| Month | Number Of Shares Repurchased | Highest Price RM | Lowest Price RM | Average Price RM | Total Amount RM |
|---|---|---|---|---|---|
| B/F from 2016 | 2,113,500 | | | | 6,777,062 |
| Jun 2017 | 10,000 | 5.00 | 5.00 | 5.00 | 50,365 |
| Dec 2017 | 40,000 | 4.60 | 4.59 | 4.59 | 185,042 |
| Jun 2018 | 10,000 | 4.15 | 4.15 | 4.15 | 41,736 |
| Total | 2,173,500 | | | | 7,054,205 |

There were no other issuance, cancellation, repurchase, resale or repayments of debts or equity securities for the period ended 30 September 2018.

## A7. Dividend paid

a) A final single tier dividend of 6 sen per share (2017: single tier 6 sen per share) in respect of the financial year ended 31 December 2017 was paid on 18 July 2018.

b) A single tier interim dividend of 4 sen per share (2017: single tier 4 sen per share) in respect of financial year ending 31 December 2018 was paid on 22 November 2018.

## A8. Segmental Information

Segmental information in respect of the Group's business segments for the period ended 30 September 2018 and its comparative:-

| 9 months period ended 30/09/2018 | Manufacturing | Hotel and Resort | Property development & Investment | Plantations | Share investment | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| REVENUE | | | | | | | | |
| External sales | 425,583 | 182,887 | 80,610 | - | 7,775 | - | - | 696,855 |
| Inter-segment sales | 62,531 | - | 1,092 | 16,438 | - | - | (80,061) | - |
| Total revenue | 488,114 | 182,887 | 81,702 | 16,438 | 7,775 | - | (80,061) | 696,855 |
| RESULTS | | | | | | | | |
| Operating results | 5,276 | 5,407 | 20,522 | 1,040 | 8,915 | - | 460 | 41,620 |
| Other income | - | - | - | - | - | - | - | - |
| Foreign exchange gain/(loss) | - | - | - | - | - | (4,721) | (358) | (5,079) |
| Finance costs | (396) | (318) | - | - | (5,193) | (927) | 5,907 | (927) |
| Interest income | - | - | - | - | - | 20,420 | (5,932) | 14,488 |
| Profit before tax | 4,880 | 5,089 | 20,522 | 1,040 | 3,722 | 14,772 | 77 | 50,102 |
| Income tax expense | | | | | | | | (30,554) |
| **Profit for the period** | | | | | | | | 19,548 |

| 9 months period ended 30/09/2017 (Restated) | Manufacturing | Hotel and Resort | Property development & Investment | Plantations | Share investment | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| REVENUE | | | | | | | | |
| External sales | 610,786 | 176,162 | 80,916 | - | 6,918 | - | - | 874,782 |
| Inter-segment sales | 70,441 | - | 1,092 | 23,904 | - | - | (95,437) | - |
| Total revenue | 681,227 | 176,162 | 82,008 | 23,904 | 6,918 | - | (95,437) | 874,782 |
| RESULTS | | | | | | | | |
| Operating results | (11,438) | (3,472) | 23,148 | 10,200 | 13,085 | - | (15) | 31,508 |
| Other income | - | - | - | - | - | - | - | - |
| Foreign exchange gain/(loss) | - | - | - | - | - | (10,356) | (19) | (10,375) |
| Finance costs | (476) | (96) | (8) | - | (2,912) | (528) | 3,492 | (528) |
| Interest income | - | - | - | - | - | 16,216 | (3,472) | 12,744 |
| Profit before tax | (11,914) | (3,568) | 23,140 | 10,200 | 10,173 | 5,332 | (14) | 33,349 |
| Income tax expense | | | | | | | | (10,239) |
| **Profit for the period** | | | | | | | | 23,110 |

### A9. Carrying Amount of Revalued Assets

The valuations of property, plant and equipment have been brought forward without amendment from the previous annual financial statements.

### A10. Material Events Subsequent to the End of the Interim Period

There were no material events subsequent to the current quarter ended 30 September 2018 up to the date of this report.

### A11. Changes in the Composition of the Group

There were no changes in the composition of the Group for the current quarter.

### A12. Changes in Contingent Liabilities

At the date of this announcement, there were no material changes in contingent liabilities since the last balance sheet date.

### A13. Significant Related Party Transactions

The significant related party transactions set out below were carried out in the normal course of business and on terms and conditions not more materially different from those obtainable in transactions with unrelated parties.

| | | 9 months ended 30-Sept | |
|---|---|---|---|
| | | 2018 RM'000 | 2017 RM'000 |
| (i) | Transactions with subsidiaries | | |
| | Purchases | 33,720 | 41,387 |
| | Sales | 41,066 | 45,484 |
| | Rental income | 1,092 | 1,091 |
| | Interest income | 5,932 | 3,472 |
| (ii) | Transactions with companies in which certain Directors are common directors and/or have direct or deemed interest. | | |
| | - Commission on sales and purchases - Keck Seng (Singapore) Private Limited | 4,029 | 5,862 |

A foreign subsidiary of the Company had in 2Q 2018 entered into an agreement with A2I Holdings S.Å R.L. to subscribe 34,527,560 shares and 1,957,157,504 Tracking Preferred Equity Certificates for investment in AccorInvest Group S.A. at cost of RM111,078,000 (EUR 23,025,278).

## ADDITIONAL INFORMATION REQUIRED BY THE BMSB'S LISTING REQUIREMENTS

### B1. Taxation

The taxation charge for the current quarter and year to-date ended 30 September 2018 was made up as follows:-

| | Current Quarter RM'000 | Year To-Date RM'000 |
|---|---|---|
| Current tax: | | |
| Malaysian income tax | (13,613) | (15,978) |
| Foreign tax | (2,428) | (6,046) |
| | (16,041) | (22,024) |
| Over/(under) provision in respect of prior years | | |
| Malaysian income tax | (141) | 264 |
| Foreign tax | (2) | (2) |
| | (143) | 262 |
| Deferred tax | | |
| Transfer from/(to) deferred taxation | (7,538) | (8,792) |
| Total income tax expense | (23,722) | (30,554) |

The Group's effective tax rate of 61% was higher than the statutory tax rate of 24% due mainly to tax provided on withdrawal of a development land to investment property.

### B2. Status of Corporate Proposals

There were no corporate proposals.

### B3. Group Borrowings

Details of Group borrowings were as follows:-

| | US Dollar '000 | Ringgit Equivalent '000 |
|---|---|---|
| Short term borrowings:- | | |
| Bank overdraft – unsecured | - | 694 |
| Term loan payable within a year - secured | 2,962 | 12,275 |
| Long term borrowings:- | | |
| Term loan payable after 1 year - secured | 52,309 | 215,620 |

### B4. Derivative Financial Instruments

The Group uses forward foreign exchange contracts to manage its exposure to various financial risks.

Forward foreign exchange contracts

Forward foreign exchange currencies contracts were entered to hedge its exposure to fluctuations in foreign currency arising from sales.

As at 30 September 2018, there were no outstanding currency forward contracts and the fair value loss recognised during the period amounts to RM 205,000.

### B5. Changes In Material Litigation

There was no material litigation pending at the date of this announcement.

## B6. Comparison with Preceding Quarter's Results

| | 3rd Quarter 2018 | 2nd Quarter 2018 | <---- Increase/(Decrease)----> | |
|---|---|---|---|---|
| | RM '000 | RM '000 | RM '000 | % |
| Revenue | 224,586 | 232,165 | (7,579) | (3) |
| Profit before taxation | 30,486 | 40,060 | (9,574) | (24) |

### Revenue

The Group's revenue in 3rd Q 2018 was lower than 2nd Q 2018. The following segments had recorded revenue in 3rd Q 2018 materially different from 2nd Q 2018:-

Property Development

The decrease in revenue was due to lower percentage of completion for residential project in Bandar Baru Kangkar Pulai resulting in lower revenue recognised.

Share Investments

The decrease in revenue was mainly due to lower dividend received from quoted investments in 3rd Q 2018 as compared to 2nd Q 2018.

### Profit before taxation

3rd Q 2018 recorded a lower profit as compared to 2nd Q 2018. The following segments had recorded results materially different from 2nd Q 2018:-

Manufacturing

The segment recorded a lower profit in 3rd Q 2018 as compared to 2nd Q 2018. The lower profit was due to decline in the strengthening of USD against Ringgit in the 3rd Q 2018 as compared to 2nd Q 2018.

Hotels

The segment recorded a lower profit in 3rd Q 2018 as compared to 2nd Q 2018 mainly due to lower average room rate recorded in 3rd Q 2018.

Share Investments

The decrease in profit was due to lower dividend received from quoted investments in 3rd Q 2018 as compared to 2rd Q 2018.

## B7. Review of Performance

| | To 3rd Quarter 2018 RM '000 | To 3rd Quarter 2017 RM '000 | < -- Increase/(Decrease)-- > RM '000 | % |
|---|---|---|---|---|
| Revenue | 696,855 | 874,782 | (177,927) | (20) |
| Profit before taxation | 50,102 | 33,349 | 16,753 | 50 |

### Revenue

The Group's revenue in 3Q 2018 was lower than 3Q 2017. The lower revenue was mainly due to lower selling price and quantity of refined oil sold in 3Q 2018.

### Profit before taxation

3Q 2018 recorded a higher profit as compared to 3Q 2017. The following segments had recorded results in 3Q 2018 materially different from 3Q 2017:-

Manufacturing

The segment recorded a forex gain in 3Q 2018 as compared to a loss in the previous corresponding period. As a result, the segment turn around from a loss to a profit.

Plantations

The much lower profit in 3Q 2018 was due mainly to lower FFB production, lower selling price and higher operating cost as compared to the previous corresponding period.

Hotels

The higher profit in 3Q 2018 as compared to 3Q 2017 was due to higher average room rate, higher occupancy rate and the absence of loss from currency swap in 3Q 2018.

**B8. Prospects for 2018**

Plantation and Manufacturing

Replanting programs for 2 estates consisting of 1,502.97 acres had been carried out in second half of 2018 instead of in 2019. The accelerated replanting program will reduce the FFB production in 2018 as compared to 2017. The production will also be lower due to 2 estates which had ceased agricultural operation since December 2017. However, the FFB intake by Palm Oil Mill is expected to be higher. Higher operating cost, acute labour shortage, volatility of exchange rate and current low CPO price which may be prolonged will continue to have negative effect on the performance of the segments.

Property Development

Bandar Baru Kangkar Pulai ("BBKP") had launched Phase 4A1 , comprising 167 units of single storey terrace houses in Aug 2018. To date, 44% of the units have been sold. We will continue to sell the remaining bumi units in Phase 3E (Areca), Phase 4A (Sapphire Hills) and Phase 5A (double storey shop offices) currently under progress construction and the remaining units of completed double storey semi-detached houses in Phase 2E in BBKP.

In Tanjong Puteri Resort ("TPR"), we successfully launched Phase 4E comprising 129 units of single storey terrace houses in September 2018 and 26% of the units have been sold. As for the 44 units of double storey shop offices launched in Oct 2017, only 18% of the units have been sold. As the said shop offices are nearing completion, we are finalizing proposal to rent upon completion to spur commercial activities in the hope of enhancing sales in tandem.

In Taman Daya, we had sold 215 out of 246 units of the Johor affordable (RMMJ) houses. We have and will continue to pursue with "Cawangan Perumahan" on sales of the remaining unsold units, mostly under bumi quota eligibility. As for the three storey shop offices, we are continuing to market our three storey shop offices for sales and rental.

Property Investment

At Menara Keck Seng, our office building in Kuala Lumpur, occupancies are expected to increase slightly as we sign up new tenants and as existing tenants expand their usage.

There is an oversupply of residential apartments in the City Centre all competing for a limited pool of expatriate tenants. Nonetheless, Regency Tower, our residential building at Kuala Lumpur, is expected to maintain its current level of business.

Hotels & Resort

Our Hotel in Toronto was re-branded as the "Delta Hotels by Marriott - Toronto Airport" in 2017, and it is now able to leverage on Marriott's reservation system and its loyalty program. Furthermore, the hospitality market in Toronto is experiencing good growth. As such, the Hotel is achieving higher room rates and increased F&B sales. We are cautiously optimistic going forward.

**B8. Prospects for 2018 (cont'd)**

Hotels & Resort (cont'd)

Business at the "Doubletree by Hilton Hotel Alana - Waikiki Beach" is stable despite strong competition from newly renovated hotels. Waikiki remains a popular vacation destination, and the hotel should achieve satisfactory occupancy and room rates.

The outlook for New York City in 2018 is relatively cautious particularly for the Midtown Manhattan market in which the Springhill Suites Hotel ("SHS") is located. A new hotel behind SHS may commence construction in the fourth quarter of 2018 and any construction works will cause some potential business disruptions to SHS. That said, SHS is anticipated to see increased Group business from the addition of 2 new Meeting Rooms. Management are taking all effort to market the new facilities. Continued focus on growing the hotel's corporate segment will also be a priority. New York's overall occupancy remains stable, and management will continue to optimise Marriott's brand program and outreach to improve market share.

For Tanjong Puteri Golf Resort, the rest of the year will see a decline in income due to closure of our Plantation Course for renovation, and on-going price competition from new and existing resorts. We also anticipate higher operating costs in labour, minimum wages and land assessments. The resort remains subject to adverse weather conditions and a declining interest in golf by the younger generation. The renovation of Villa & Meeting room has been completed and new Banquet and MICE offers have been launched to support the on-going repositioning of the resort to the corporate and leisure market. With the reopening of the Plantation Course in $4^{th}$ quarter, the golf division should help in improving overall revenue. The Resort will continue its efforts to improve its business in seeking new golfing markets, offering unique experiences to set ourselves apart from the competition. The management team remains diligently committed to achieving the objectives for the year.

Conclusion

2018 is expected to be challenging given the increasing business costs, the continuing effect of global climate change, the on-going US-China trade war, geopolitical events and volatility of currency exchange.

**B9. Explanatory Notes for Variance of Actual Profit from Forecast Profit / Profit Guarantee**

Not applicable.

**B10. Dividends**

The Board does not recommend any dividend for the current quarter under review.

## B11. Earnings Per Share

*a) Basic Earnings Per Share*

The basic earnings per share for the current quarter and year-to-date had been calculated as follows:-

| | Current Quarter | Year To-Date |
|---|---|---|
| Profit attributable to owners of the parent (RM'000) | 6,349 | 16,697 |
| Weighted average number of ordinary shares in issue ('000) | 359,314 | 359,319 |
| Basic earnings per share (sen) | 1.77 | 4.65 |

*b) Diluted Earnings Per Share*

There were no potential dilutive ordinary shares outstanding as at the end of the reporting period. Hence, the diluted earnings per share is the same as the basic earnings per share.

## B12. Notes to the Condensed Consolidated Statement of Comprehensive Income

The following amounts have been credited /(charged) in arriving at profit before tax:-

| | | Individual Quarter 3 months ended 30-Sept | | Cumulative Quarter 9 months ended 30-Sept | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| | | RM'000 | RM'000 | RM'000 | RM'000 |
| | | | **(Restated)** | | **(Restated)** |
| a) | Interest income | 4,944 | 4,647 | 14,488 | 12,744 |
| b) | Dividend income | 2,304 | 2,071 | 7,775 | 6,918 |
| c) | Other income | 2,643 | 2,708 | 5,447 | 6,509 |
| d) | Interest expenses | (2,225) | (1,754) | (6,053) | (5,403) |
| e) | Depreciation and amortisation | (9,393) | (8,350) | (27,066) | (25,118) |
| f) | (Allowance for) /(write-off)/write back of receivables | 18 | (14) | 52 | (2,613) |
| g) | (Allowance for)/(write-off)/write-back of inventories | 53 | 0 | 249 | 140 |
| h) | Gain /(Loss) on disposal of properties, plant & equipment | 89 | 7 | 129 | 35 |
| i) | Gain /(Loss) on disposal of quoted or unquoted of investment or properties | (2) | 3,297 | (3) | 4,905 |
| j) | Impairment of assets | 0 | 0 | 0 | 0 |
| k) | Realised exchange gain/(loss) | 2,252 | (589) | (6,098) | (23,381) |
| l) | Unrealised exchange gain/(loss) | 10,640 | (6,623) | 5,044 | (24,360) |
| m) | Assets (written off)/write-back | (10) | (4) | (288) | (206) |
| n) | Gain/(Loss) on derivatives | 465 | 546 | (205) | 24,772 |
| o) | Fair value gain/(loss) on biological assets | 387 | (101) | 82 | (519) |
| p) | Additional compensation on disposal of land | 0 | 0 | 0 | 0 |