

KNUSFORD BERHAD (380100-D)

Notes to the interim financial report – 31 December 2015

A1 Basis of preparation

The interim financial statements are unaudited and have been prepared in compliance with Malaysian Financial Reporting Standard (MFRS) 134 and International Accounting Standards (IAS) 34: Interim Financial Reporting and paragraph 9.22 and Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements are to be read in conjunction with the audited financial statements for the year ended 31 December 2014. The 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 31 December 2014.

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted for the annual financial statements for the year ended 31 December 2014 except for the following :-

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 July 2014

- Amendments to MFRS 1, *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2011-2013 Cycle)*
- Amendments to MFRS 2, *Share-based Payment (Annual improvements 2010-2012 Cycle)*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 8, *Operating Segments (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 13, *Fair Value Measurement (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 116, *Property, Plant, Equipment (Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle)*
- Amendments to MFRS 119, *Employee Benefits - Defined Benefit Plans: Employee Contributions*
- Amendments to MFRS 124, *Related Party Disclosures (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 138, *Intangible Assets (Annual Improvements 2010-2012 Cycle)*
- Amendments to MFRS 140, *Investment Property (Annual Improvements 2011-2013 Cycle)*

At the date of this report, the following standards and amendments were issued but are not yet effective and have not been adopted by the Group:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 5, *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 10, *Consolidated Financial Statements*, MFRS 12, *Disclosure of Interests in Other Entities* and MFRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements - Disclosure Initiative*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 138, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116, *Property, Plant and Equipment* and MFRS 141, *Agriculture – Agriculture: Bearer Plants*
- Amendments to MFRS 119, *Employee Benefits (Annual Improvements 2012-2014 Cycle)*
- Amendments to MFRS 127, *Separate Financial Statements – Equity Method in Separate Financial Statements*
- Amendments to MFRS 134, *Interim Financial Reporting (Annual Improvements 2012-2014 Cycle)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- MFRS 9, *Financial Instruments (2014)*
- MFRS 15, *Revenue from Contracts with Customers*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

A1 Basis of preparation (continue)

The Group and the Company plan to apply the abovementioned accounting standards, amendments and interpretations:

- from the annual period beginning on 1 January 2016 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016;
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018.

The initial application of the accounting standards, amendments and interpretations, where applicable are not expected to have any material financial impact on the financial statements of the Group except as mentioned below:

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Group and Company are currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instrument: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group and Company are currently assessing the financial impact of adopting this standard.

A2 Auditors' report

There was no qualification on the audited report of the Group's preceding annual financial statements.

A3 Seasonal or cyclical factors

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

A4 Unusual items due to their nature, size or incidence

There were no unusual items for the year ended 31 December 2015.

A5 Changes in estimates

Not applicable.

A6 Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter and 12 months ended 31 December 2015.

A7 Dividends paid

The shareholders have on 25 May 2015 approved the payment of a first and final dividend for the financial year ended 31 December 2014 as follows :-

	RM
First and final single tier dividend of 5 sen per ordinary shares	4,982,250.10
	=====

The said dividend was paid on 18 August 2015 to members whose names appear in the Record of Depositors on 31 July 2015.

A8 Segmental information

Segmental information is presented in respect of the Group's business segment. Inter-segment pricing is determined based on negotiated terms.

	12 months ended 31 December 2015 Revenue RM '000	12 months ended 31 December 2014 Revenue RM '000	12 months ended 31 December 2015 Profit before tax RM '000	12 months ended 31 December 2014 Profit before tax RM '000
Trading and services	147,952	331,033	5,067	41,479
Property development	4,269	39,120	127	15,709
Construction	4,851	44,306	(252)	(8,850)
Investment Property	2,407	1,879	943	744
	<hr/> 159,479	<hr/> 416,338	<hr/> 5,885	<hr/> 49,082
Inter-segment eliminations	(5,955)	(6,583)	(297)	(1,945)
Unallocated income	-	-	1,831	952
Unallocated expenses	-	-	(2,316)	(4,065)
	<hr/> 153,524	<hr/> 409,755	<hr/> 5,103	<hr/> 44,024
	<hr/>	<hr/>	<hr/>	<hr/>

A9 Valuation of property, plant and equipment

Valuation of property, plant and equipment has been brought forward, without amendment from the preceding annual financial statements.

A10 Event subsequent to the balance sheet date

There were no material events subsequent to the balance sheet date.

A11 Changes in composition of the Group

There were no changes in the composition of the Group for the quarter and 12 months ended 31 December 2015.

A12 Significant Related Party Transactions

The group has significant related party transactions with companies in which certain directors of the Company have interest, as follows:-

	12 months ended 31 December 2015 RM'000
With companies in which certain Directors of the Company, have interests:	
Aramijaya Sdn Bhd	468
Bidari Kekal Sdn Bhd	(4,792)
Casa Green City Sdn Bhd	1,504
Danga Bay Sdn Bhd	5,232
Ekovest Berhad	(144)
Ekovest Construction Sdn Bhd	55,902
Ekovest Project Management Sdn Bhd	(133)
Ekovest Properties Sdn Bhd	(161)
Iskandar Waterfront City Bhd and its subsidiaries	1,616
Iskandar Waterfront Sdn Bhd	1,423
Para Impiana Sdn Bhd	1,795
Pembinaan KS Tebrau Sdn Bhd	2,830
Rampai Fokus Sdn Bhd	4,519
Sharikat Sukma Kemajuan dan Perusahaan Sdn Bhd	(20,172)

B1 Detailed analysis of the performance of all operating segment of the Group

The Group recorded a revenue of RM153.524 million and profit before tax of RM5.103 million for the 12 months ended 31 December 2015 as compared to revenue of RM409.755 million and profit before tax of RM44.024 million for the preceding year.

Performance of the respective operating business segments for the 12 months ended 31 December 2015 as compared to the preceding year is analysed as follows :-

Trading and services

The decrease in revenue and profit before tax were mainly due to the decrease in sales volume.

Property development

The decrease in the revenue and profit before tax were mainly due to the adoption of IC Interpretation 15, whereby the property development revenue and profit can only be recognised upon delivery of vacant possession to buyers. There was no development profit recognised during the year except for disposal of a piece of development land.

Construction

The decrease in the revenue and loss before tax were mainly due to completion of major construction projects. The loss incurred for the preceding year inclusive of the provision of long outstanding receivables and amount yet to be certified by client.

Investment property

The increase in revenue and profit before tax were due to additional rental income from new tenancies for certain investment properties.

B2 Comparison with preceding quarter results

For the quarter under review, the Group recorded a loss before taxation of RM0.483 million on a revenue of RM32.224 million as compared to a profit before taxation of RM1.145 million on a revenue of RM24.511 million for the preceding quarter. Despite an increase in revenue, the company recorded a loss before tax mainly due to the increase in trading of lower profit margin products.

B3 Prospects

The sluggish outlook for the construction and property development industry where the Group business substantially depends on, is expected to prolong and remain challenging. Nevertheless, the Group will continue to look for new business opportunities and tender for new potential projects in its effort to maintain satisfactory results.

B4 Variance of actual profit from forecast profit / profit guarantee

Not applicable.

B5 Taxation

	Current quarter ended 31 December 2015 RM '000	12 months ended 31 December 2015 RM '000
Income tax		
Current provision	340	2,106
Under provision in prior year	-	1,367
Deferred tax	826	(100)
	1,166	3,373

The Group's effective tax rate for the financial year ended 31 December 2015 was higher than the prima facie tax rate mainly due to the losses incurred by certain subsidiaries, additional tax arising from transfer of inventory to investment property and disallowable expenses.

B6 Corporate proposals

There were no corporate proposals announced or pending completion as at the date of this report.

B7 Group borrowings

	As at 31 December 2015 RM '000
Current:	
Finance lease liabilities	1,291
Non-current:	
Finance lease liabilities	1,779

B8 Changes in material litigation.

Neither the Company nor its subsidiaries is engaged in any material litigation, claims or arbitration, either as a plaintiff or defendant, and the Directors are not aware of any proceedings, pending or threatened against the Company and its subsidiaries or any fact likely to give rise to any proceedings which might materially or adversely affect the position or business of the Company and its subsidiaries.

B9 Dividends declared

The Directors have proposed, subject to the shareholders approval in the forthcoming annual general meeting to be convened, a first and final single tier dividend of 2%. The date for the payment of dividend shall be announced in due course.

B10 Earnings per share

	Current quarter ended 31 December 2015 RM '000	Preceding year corresponding quarter ended 31 December 2014 RM '000	Cumulative 12 months ended 31 December 2015 RM '000	Cumulative 12 months ended 31 December 2014 RM '000
(Loss)/Earnings	(1,649)	20,356	1,730	27,913
Issued ordinary shares at beginning of period	99,645	99,645	99,645	99,645
Effect of shares issued for the period	-	-	-	-
Weighted average number of shares at end of period	99,645	99,645	99,645	99,645
Basic (loss)/earning per ordinary shares (sen)	(1.65)	20.43	1.74	28.01
Diluted earning per ordinary shares (sen)	N/A	N/A	N/A	N/A

B11 Notes to the statement of profit or loss and other comprehensive income

	Current quarter ended 31 December 2015 RM'000	12 months ended 31 December 2015 RM'000
Profit before tax is arrived at after (crediting)/charging :		
Interest income	(591)	(1,775)
Other income including investment income	(1,688)	(6,651)
Interest expense	106	456
Depreciation and amortization	1,473	4,876
Provision for and write off of receivables	(555)	-
Provision for and write off of inventories	-	-
Gain or loss on disposal of quoted or unquoted investments or properties	-	-
Impairment of assets	-	-
Foreign exchange gain or loss	-	-
Gain or loss on derivatives	-	-
Exceptional items (with details)	-	-

B12 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their carrying amounts shown in the statements of financial position.

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
2015					
Financial liabilities					
Finance lease liabilities	-	-	3,377	3,377	3,070
2014					
Financial liabilities					
Finance lease liabilities	-	-	3,702	3,702	3,438

B13 Realised and Unrealised Profits/(Losses)

The Group retained earnings are analysed as follows:-

	As at 31 December 2015 RM'000	As at 31 December 2014 RM'000
<i>Total retained earnings of the Company and its subsidiaries</i>		
Realised gain	214,322	219,587
Unrealised loss	(837)	(1,281)
	<hr/> 213,485	<hr/> 218,306
<i>Total share of retained earnings of joint venture</i>		
Realised gain	78	-
Unrealised loss	(22)	-
	<hr/> 213,541	<hr/> 218,306
Less: Consolidation adjustments	(45,126)	(46,639)
Total Group retained earnings as per consolidated accounts	<hr/> <hr/> 168,415	<hr/> <hr/> 171,667

The determination of realised and unrealised profits/(losses) is based on the Guidance of Special Matter No.1 *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysia Institute of Accountants on 20 December 2010.