

KNUSFORD BERHAD (380100-D)

Notes to the interim financial report – 30 September 2017

A1 Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 2016 in Malaysia.

The following are accounting standards, amendments and interpretations of the MFRSs that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

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
- Clarifications to MFRS 15, Revenue from Contracts with Customers
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 2, Share-based Payment - Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4, Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 128, Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)
- Amendments to MFRS 140, Transfers of Investment Property
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16, Leases

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

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

- from the annual period beginning on 1 January 2018 for those accounting standards that are effective for annual periods beginning on or after 1 January 2018; and
- from the annual period beginning on 1 January 2019 for the accounting standard that is effective for annual periods beginning on or after 1 January 2019.

The initial application of the abovementioned accounting standards, amendments or interpretations, are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Company except as mentioned below:

MFRS 9, Financial Instruments

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

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

A1 Basis of preparation (continued)

MFRS 15, Revenue from Contract with Customers

MFRS 15 will replace 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 the Company are currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, Leases, IC Interpretation 4, Determining whether an Arrangement contains a Lease, IC Interpretation 115, Operating Leases – Incentives and IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group and the Company are currently assessing the financial impact that may arise from the adoption of MFRS 16.

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 period ended 30 September 2017.

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 9 months ended 30 September 2017.

A7 Dividends paid

No dividend was paid for the current quarter and 9 months ended 30 September 2017.

A8 Segmental information

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

Current quarter ("3Q 2017") against preceding year corresponding quarter ("3Q 2016")

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	30 September 2017 Revenue	30 September 2016 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	21,402	25,100	(3,698)	(14.7)
Property development	4,033	-	4,033	100.0
Construction	14,348	5,892	8,456	143.5
Investment Property	760	764	(4)	(0.5)
	40,543	31,756	8,787	27.7
Inter-segment elimination	(2,259)	(511)	(1,748)	(342.1)
	38,284	31,245	7,039	22.5

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	30 September 2017 Profit/(Loss) before tax	30 September 2016 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	(1,112)	(1,355)	243	17.9
Property development	(1,028)	(726)	(302)	(41.6)
Construction	(385)	(636)	251	39.5
Investment Property	141	(53)	194	366.0
	(2,384)	(2,770)	386	13.9
Elimination	(131)	(10)	(121)	(1,210.0)
Unallocated income	1,056	171	885	517.5
Unallocated expenses	(1,137)	(857)	(280)	(32.7)
	(2,596)	(3,466)	870	25.1

A8 Segmental information (continued)

Current year to date (“YTD 2017”) against preceding year corresponding period (“YTD 2016”)

	9 months ended	9 months ended	Changes	
	30 September 2017 Revenue	30 September 2016 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	72,259	80,974	(8,715)	(10.8)
Property development	6,671	-	6,671	100.0
Construction	30,810	12,985	17,825	137.3
Investment Property	2,315	2,147	168	7.8
	112,055	96,106	15,949	16.6
Inter-segment elimination	(5,813)	(1,038)	(4,775)	(460.0)
	106,242	95,068	11,174	11.8

	9 months ended	9 months ended	Changes	
	30 September 2017 Profit/(Loss) before tax	30 September 2016 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	(4,555)	(3,331)	(1,224)	(36.7)
Property development	332	(3,136)	3,468	110.6
Construction	(1,017)	(1,672)	655	39.2
Investment Property	341	189	152	80.4
	(4,899)	(7,950)	3,051	38.4
Elimination	(740)	(28)	(712)	(2,542.9)
Unallocated income	1,530	995	535	53.8
Unallocated expenses	(2,587)	(1,896)	(691)	(36.4)
	(6,696)	(8,879)	2,183	24.6

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

Save as disclose below, there were no changes in the composition of the Group for the current quarter and 9 months ended 30 September 2017:

The Group had on 25 April 2017 announced that its wholly-owned subsidiary, Knusford Oil & Gas Sdn Bhd ("KOG") had on 25 April 2017 incorporated a new subsidiary company namely, Knusford International Pte Ltd ("KIPL") in Singapore.

KIPL, a wholly-owned subsidiary of KOG, has an issued and paid-up share capital of SGD2.00 comprising of 2 ordinary shares issued at SGD1.00 each. The principal activity of KIPL is investment holding.

A12 Changes in contingent liabilities

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	As at 30 September 2017
	RM'000
Guarantees and contingencies relating to Borrowings of subsidiaries (unsecured)	13,208
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A13 Significant Related Party Transactions

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

	9 months ended
	30 September 2017
	RM'000
With companies in which certain Directors of the Company, have interests:	
Aramijaya Sdn Bhd	739
Danga Bay Sdn Bhd	382
Ekovest Construction Sdn Bhd	14,229
Ekovest Properties Sdn Bhd	(124)
Iskandar Waterfront Sdn Bhd	11,376
Pembinaan KS Tebrau Sdn Bhd	(116)
Rampai Fokus Sdn Bhd	2,408
Iskandar Waterfront City Berhad and its subsidiaries	1,745

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

Financial review for current quarter

	Individual Period (3 rd Quarter)		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter	Amount	%
	30 September 2017 RM'000	30 September 2016 RM'000	RM'000	
Revenue	38,284	31,245	7,039	22.5
Gross Profit	1,677	98	1,579	1,611.2
Loss Before Interest and Tax	(3,295)	(3,245)	(50)	(1.5)
Loss Before Tax	(2,596)	(3,466)	870	25.1
Loss After Tax	(3,608)	(3,580)	(28)	(0.8)
Loss Attributable to Ordinary Equity Holders of Parent	(3,608)	(3,580)	(28)	(0.8)

Current quarter (“3Q 2017”) against preceding year corresponding quarter (“3Q 2016”)

For the 3Q 2017, the Group registered revenue of RM38.284 million and loss before tax of RM2.596 million as compared to revenue of RM31.245 million and loss before tax of RM3.466 million reported in the 3Q 2016. The increase in Group revenue was mainly due to increase in work done for our construction activities and sales of a completed development unit. The loss before tax was lower by 25.1 % mainly due to contribution of RM0.657 from the share of results of a jointly controlled entity involved in construction sector.

The performance of the respective operating business segments for the 3Q 2017 under review as compared to the 3Q 2016 is analysed as follow:

Trading and services

The trading sector reported a lower revenue of RM21.402 million for the 3Q 2017 as compared to RM25.100 million in 3Q 2016, mainly due to the lesser demand. The lower loss before tax of RM1.112 million in 3Q 2017 as compared to loss before tax of RM1.355 million in 3Q 2016 was mainly due to supply of certain products with better gross profit margin in 3Q 2017.

Property development

The improved revenue for the quarter in 3Q 2017 is due to the sale of a completed unit during the period whereas the increased in loss before tax is mainly due to provision for foreseeable loss on a piece of school reserve land to be surrendered to the state government as a condition for approval of development plan.

Construction

The construction sector registered a higher revenue of RM14.348 million in 3Q 2017 as compared to RM5.892 million in 3Q 2016. The increase in revenue for 3Q 2017 was mainly due to increase in work done for our construction projects. The construction sector also recorded lesser loss of RM0.385 million compared to loss before tax of RM 0.636 million in 3Q 2016 due to increase in work done.

Investment property

Revenue for the current quarter reduced marginally by 0.5% from RM0.764 million to RM0.760 million due to termination of tenancy for certain units of Group’s investment properties which is exceed the additional new tenancies produce during the period. This sector recorded profit before tax of RM0.141 million for the 3Q 2017 compared to loss before tax of RM0.05 million in 3Q 2016 due to decrease in overhead costs in 3Q 2017.

Financial review for financial year to date

	Cumulative Period		Changes	
	Current Year To- Date	Preceding Year Corresponding Period	Amount	%
	30 September 2017 RM'000	30 September 2016 RM'000	RM'000	
Revenue	106,242	95,068	11,174	11.8
Gross Profit	7,274	2,844	4,430	155.8
Loss Before Interest and Tax	(7,383)	(9,202)	1,819	19.8
Loss before Tax	(6,696)	(8,879)	2,183	24.6
Loss After Tax	(8,609)	(8,749)	140	1.6
Loss Attributable to Ordinary Equity Holders of Parent	(8,609)	(8,749)	140	1.6

Current year to date (“YTD 2017”) against preceding year corresponding period (“YTD 2016”)

For the YTD 2017, the Group recorded revenue of RM106.242 million, an increase of RM11.174 million or 11.8% from RM95.068 million in YTD 2016. The Group also recorded loss before tax of RM6.696 million. The increase in total revenue was mainly due to increase in work done for our construction projects and sale of completed development unit. The decrease in the Group’s loss before tax by 24.6% from 3Q 2016 was mainly due to increase in revenue from our construction and property development segments.

The performance of the respective operating business segments for the YTD 2017 under review as compared to the YTD 2016 is analysed as follow:

Trading and services

The trading sector reported a lower revenue of RM72.259 million for the YTD 2017 as compared to RM80.974 million in YTD 2016. The decrease in revenue was mainly due to the decrease in demand from our existing key customers. The higher loss before tax of RM 4.555 million in YTD 2017 as compared to loss before tax of RM3.331 million in YTD 2016 was mainly due to lesser demand.

Property development

The property development sector registered a profit before tax of RM0.332 million on the revenue of RM6.671 million, due to sale of completed units during the period, decrease in sales & marketing expenses and non-claimable GST expenses for residential property.

Construction

The construction sector registered a higher revenue of RM30.810 million in YTD 2017 as compared to RM12.985 million in YTD 2016. The sector has also registered a lesser loss before tax of RM1.017 million due to increase in work done.

Investment property

The increase in revenue and profit before tax was due to additional new tenancies for certain units of Group’s investment properties.

B2 Comparison with preceding quarter results**Current quarter (3Q 2017) against immediate preceding quarter (2Q 2017)**

	Current Quarter	Immediate Preceding Quarter	Changes	
	30 September 2017	30 June 2017	Amount	%
	RM'000	RM'000	RM'000	
Revenue	38,284	35,526	2,758	7.8
Gross Profit	1,677	980	697	71.1
Loss Before Interest and Tax	(3,295)	(2,847)	(448)	(15.7)
Loss before Tax	(2,596)	(2,462)	(134)	(5.4)
Loss After Tax	(3,608)	(2,716)	(892)	(32.8)
Loss Attributable to Ordinary Equity Holders of Parent	(3,608)	(2,716)	(892)	(32.8)

The Group recorded a revenue of RM38.284 million for the 3Q 2017 as compared to the 2Q 2017 of RM35.526 million. The increase in revenue was mainly attributed to higher revenue recognised from construction sector and sale of a completed development unit. Despite an increase in the revenue, the loss before tax increased from RM2.462 million to RM2.596 million mainly due to 3Q 2017 results inclusive of provision of foreseeable loss for property development sector in 3Q 2017.

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 to the Group's performance. Moving forward, the Group expects to increase its construction order book which currently stand at RM61.850 million and enhance its trading activities. The Group will continue to look for new business opportunities in Malaysia and abroad, in its effort to strive for a commendable performance for the remaining period of the financial year.

B4 Variance of actual profit from forecast profit / profit guarantee

Not applicable.

B5 Taxation

	Current quarter ended 30 September 2017 RM '000	9 months ended 30 September 2017 RM '000
Income tax		
Current provision	1,387	3,352
Deferred tax	(375)	(1,439)
	1,012	1,913

B6 Corporate proposals

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

B7 Group borrowings

	As at 3 rd Quarter ended 2017		
	Long term	Short Term	Total borrowings
	RM'000	RM'000	RM'000
Secured			
Revolving credit	-	500	500
Unsecured			
Revolving credit	-	18,300	18,300
Finance lease liabilities	2,012	1,111	3,123
	<u>2,012</u>	<u>19,911</u>	<u>21,923</u>

	As at 3 rd Quarter ended 2016		
	Long term	Short Term	Total borrowings
	RM'000	RM'000	RM'000
Secured			
Revolving credit	-	2,000	2,000
Unsecured			
Finance lease liabilities	1,405	1,529	2,934
	<u>1,405</u>	<u>3,529</u>	<u>4,934</u>

The increase in borrowing is mainly for the purpose of working capital requirement.

B8 Changes in material litigation.

Save as disclosed below, neither the Company nor its subsidiaries are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the Board are not aware and do not have any knowledge of any proceedings, pending or threatened against the Group or any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Company and its subsidiaries:

The wholly-owned subsidiary of Knusford Berhad (“KB”), Knusford Marketing Sdn Bhd (“KMKS B”) had served a notice under Section 218(1)(e) & 218(2)(a) of the Companies Act 1965 (collectively “Notices”) on Kinsteel Berhad (“KINSB”) and Kin Kee Marketing Sdn Bhd (“KKMSB”) on 25 November 2016 for failing to deliver steel bars for an outstanding sum of RM20,074,567.90.

A winding up petition had subsequently been served on both Companies, KINSB and KKMSB on 22 December 2016. The Notice of Appointment pursuant to Rule 32 Companies (Winding Up) Rules 1972 was fixed on 8 March 2017 at 9.00am.

KINSB had on 3 January 2017 made an Announcement to Bursa Securities Berhad that KINSB has been granted an order pursuant to Section 176 (1) and 176 (10) of Companies Act 1965 by the High Court of Kuala Lumpur to restrain all further proceedings, and any actions or proceedings brought by any party including its Scheme Creditors (consists of creditors and bankers) up to 28 February 2017.

KINSB explained that the Order was applied in order to convene a meeting with its creditors pursuant to Section 176(1) of the Act for the purpose of considering and if thought fit, to approve with or without any alteration or modification, a proposed scheme of arrangement and compromise for KINSB.

The Hearing for the above winding up petition was initially fixed on 23 March 2017 but later postponed to 20 April 2017 in view of another Restraining Order (“RO”)’s application submitted by KINSB on 16 March 2017 at Kuantan High Court and KMKS B’s application to intervene in the said RO application.

Our solicitor, Messrs TJ Goh & Co has updated us the following status after the above said hearing held on 20 April 2017:

- KINSB had obtained another RO in the Alor Setar High Court on 11 April 2017;
- As the RO was in place in Alor Setar, the matters in Kuantan had to be stayed until the disposal of the RO in Alor Setar;
- The court fixed 12 July 2017 for the matters in Kuantan to be resumed;
- The group of banks lawyers (creditors) were also present and represented by Messrs Shook Lin & Bok and they will also be intervening and supporting our applications in Kuantan;

B8 Changes in material litigation. (continued)

- e) The defendants' creditors (Kin Kee Holdings) lawyers asked for the RO in Kuantan to be dismissed but the court refused; and
- f) The Judge had no other choice but to fixed the matters in Kuantan on 12 July 2017 as the RO in Alor Setar would expire on 10 July 2017.

On 11 July 2017, KINSB and KKMSB had obtained another RO at the Shah Alam High Court which will expire on 9 October 2017. The suit which was originally fixed for hearing on 12 July 2017 could not proceed due to this new RO obtained by their client at Shah Alam High Court, and as such the hearing was adjourned to 10 October 2017.

Our lawyer, Messrs TJ Goh & Co has attended the court hearing on 10 October 2017 but the matter was again postponed to 22 November 2017 as KINSB's lawyer informed the Court during the hearing that there is another RO obtained by their client in Ipoh on 9 October 2017 being in force and will valid for 3 months.

B9 Dividends declared

No interim dividend has been declared for the current quarter ended 30 September 2017.

B10 Earnings per share

	Current quarter ended 30 September 2017	Preceding year corresponding quarter ended 30 September 2016	Cumulative 9 months ended 30 September 2017	Cumulative 9 months ended 30 September 2016
	RM '000	RM '000	RM '000	RM '000
Loss	(3,608)	(3,580)	(8,609)	(8,749)
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 per ordinary shares (sen)	(3.62)	(3.59)	(8.64)	(8.78)
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 30 September 2017 RM'000	9 months ended 30 September 2017 RM'000
Loss before tax is arrived at after (crediting)/charging :		
Interest income	(399)	(653)
Other income including investment income	(215)	(853)
Interest expense	357	843
Depreciation and amortization	1,028	3,102
Provision for and write off of receivables	315	467
Provision for and write off of inventories	-	-
Provision for doubtful debt written back	-	-
Provision for foreseeable loss	3,908	3,908
Provision for liquidated ascertained damages	88	88
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 financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the financial asset or liabilities, either directly or indirectly

Level 3 – Inputs for the financial asset or liabilities that are not based on observable market data

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
30 September 2017					
Financial liabilities					
Finance lease liabilities	-	-	3,285	3,285	3,123
<hr/>					
30 September 2016					
Financial liabilities					
Finance lease liabilities	-	-	3,180	3,180	2,934
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B13 Realised and Unrealised Profits/(Losses)

The Group retained earnings are analysed as follows:-

	As at 30 September 2017 RM'000	As at 31 December 2016 RM'000
<i>Total retained earnings of the Company and its subsidiaries</i>		
Realised gain	172,111	189,908
Unrealised loss	3,798	2,383
	<hr/> 175,909	<hr/> 192,291
<i>Total share of retained earnings of joint venture</i>		
Realised gain	1,603	726
Unrealised gain	277	277
	<hr/> 177,789	<hr/> 193,294
Less: Consolidation adjustments	(36,232)	(43,128)
Total Group retained earnings as per consolidated accounts	<hr/> 141,557	<hr/> 150,166

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.