Notes to the interim financial report – 31 March 2018

A1 Basis of preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting in Malaysia, IAS 34: Interim Financial Reporting and paragraph 9.22 of the Main Marketing Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities").

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited financial statements for the financial year ended 31 December 2017. 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 2017.

The following are accounting standards, amendments and interpretations 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 2019

- MFRS 16, *Leases*
- IC Interpretation 23, *Uncertainty over Income Tax Treatments*
- Amendments to MFRS 3, *Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to MFRS 11, *Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 112, *Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 119, *Employee Benefits – Plan Amendment, Curtailment and Settlement*
- Amendments to MFRS 123, *Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)*
- Amendments to MFRS 128, *Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 2, *Share-based payment*
- Amendments to MFRS 3, *Business combination*
- Amendments to MFRS 6, *Exploration for and Evaluation of Mineral Resources*
- Amendment to MFRS 14, *Regulatory Deferral Accounts*
- Amendments to MFRS 101, *Presentation of Financial Statements*
- Amendments to MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*
- Amendments to MFRS 134, *Interim Financial Reporting*
- Amendment to MFRS 137, *Provisions, Contingent Liabilities and Contingent Assets*
- Amendment to MFRS 138, *Intangible Assets*
- Amendments to IC Interpretation 12, *Service Concession Arrangements*
- Amendments to IC Interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*
- Amendments to IC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*
- Amendments to IC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*
- Amendments to IC Interpretation 132, *Intangible Assets - Web Site Costs*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 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 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 2019 for the accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2019.

- from the annual period beginning on 1 January 2020 for the accounting standards, amendments and interpretation that are effective for annual periods beginning on or after 1 January 2020.

The Group and the Company do not plan to apply MFRS 17, *Insurance Contracts* that is effective for annual periods beginning on or after 1 January 2021 as it is not applicable to the Group and the Company.

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

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 Significant accounting policies

The significant accounting policies and methods adopted for the interim financial report are consistent with those adopted for the audited financial statements for the financial year ended 31 December 2017, except for changes arising from the adoption of MFRS 15 “Revenue from Contracts with Customers” as described below:

(a) Adoption of MFRS 15 “Revenue from contracts with customers”

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 supersede the revenue recognition guidance including MFRS 118, *Revenue* and MFRS 111, *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

Revenue from property development is recognised as and when the control of the asset is transferred to the customer and it is probable that the Group will collect the consideration to which it will be entitled in exchange for the asset that will be transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. Control of the asset is transferred over time if the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer in substance obtains control of the asset.

The Group recognises revenue over time using the input method, which is based on the level of completion in proportion of cost incurred to date against the expected total construction costs.

The Group adopts the new standards on the required effective date using the full retrospective method. The affected areas upon the application of the new standards are as follows:

(i) Property development revenue

Under IFRIC 15, property development revenue is only recognised when the risk and rewards of the properties under development passes to the buyer upon delivery of vacant possession in its entirety at a single time and not continuously as construction progresses.

Under the current MFRS 15, property development revenue from sale of residential properties is to recognised over time. Contract works stated above are performed progressively, revenue recognition point is as at when performance obligation are satisfied overtime.

(ii) Recognition of provision for foreseeable losses for low cost housing

Under the previous FRS, the Group recognised upfront the provision for foreseeable losses for anticipated losses to be incurred on the development of involuntary low cost housing as required by approving authorities. The application of the above is in accordance to FRSIC Consensus 17, Development of Affordable Housing (“FRSIC 17”) issued by Malaysian Institute of Accountants (“MIA”).

MFRS 15 requires the accounting to be done on a contract basis. Pursuant to the clarification on the use to FRSIC 17 on 7 March 2018, it stated that FRSIC 17 is no longer relevant upon the adoption of MFRS framework. Pending further clarification from MIA, the Group is of the view that the recognition of foreseeable losses is still required due to the existence of contractual obligation to build low cost housing.

A2 Significant accounting policies ("continued")

Restatement of comparative figures

(i) Reconciliation of Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Current 3 months ended 31 March 2017			**Cumulative 3 months ended 31 March 2017**		
	Previously	**Adjustment due to MFRS 15**	**Restated**	**Previously**	**Adjustment due to MFRS 15**	**Restated**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	32,432	5,619	38,051	32,432	5,619	38,051
Cost of sales	(27,815)	(6,450)	(34,265)	(27,815)	(6,450)	(34,265)
Tax expense	(647)	147	(500)	(647)	147	(500)

(ii) Reconciliation of Consolidated Statement of Financial Position as at 31 December 2017/ 1 January 2018

	Previously	**Adjustment due to MFRS 15**	**Restated**
	RM'000	**RM'000**	**RM'000**
Deferred tax assets	4,398	958	5,356
Inventories	63,645	(21,382)	42,263
Trade and other receivables	127,384	8,181	135,565
Retained earnings	138,773	(3,591)	135,182
Trade and other payables	87,484	(8,327)	79,157
Current tax payable	604	159	763
Deferred tax liabilities	1,274	(484)	790

(b) Adoption of MFRS 9 "Financial Instruments"

The adoption of MFRS 9 has fundamentally changed the accounting for impairment losses for financial assets by replacing MFRS139's incurred loss approach, with expected credit loss approach.

The impact upon application of the new impairment model was not material in relation to the opening balance of the Group as at 1 January 2018.

A3 Auditors' report

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

A4 Seasonal or cyclical factors

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

A5 Unusual items due to their nature, size or incidence

There were no unusual items for the period ended 31 March 2018.

A6 Changes in estimates

Not applicable.

A7 Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter and 3 months ended 31 March 2018.

A8 Dividends paid

No dividend was paid for the current quarter and 3 months ended 31 March 2018.

A9 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 ("1Q 2018") against preceding year corresponding quarter ("1Q 2017")

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	31 March 2018 Revenue	31 March 2017 Revenue (Restated)	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	16,781	26,237	(9,456)	(36.0)
Property development	4,065	8,257	(4,192)	(50.8)
Construction	8,218	4,237	3,981	94.0
Investment property	715	705	10	1.4
	29,779	39,436	(9,657)	(24.5)
Inter-segment elimination	(2,508)	(1,385)	(1,123)	(81.1)
	27,271	38,051	(10,780)	(28.3)

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	31 March 2018 Profit/(Loss) before tax	31 March 2017 Profit/(Loss) before tax (Restated)	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	(1,927)	(1,832)	(95)	(5.2)
Property development	(922)	1,196	(2,118)	(177.1)
Construction	(1,234)	(483)	(751)	(155.5)
Investment property	25	24	1	4.2
	(4,058)	(1,095)	(2,963)	(270.6)
Elimination	(182)	(644)	462	71.7
Unallocated income	1,414	77	1,337	1,736.4
Unallocated expenses	(660)	(807)	147	18.2
	(3,486)	(2,469)	(1,017)	(41.2)

A9 Segmental information (continued)

Current year to date (“YTD 2018”) against preceding year (“YTD 2017”)

	3 months ended	3 months ended	Changes	
	31 March 2018 Revenue	31 March 2017 Revenue (Restated)	Amount	%
	RM’000	RM’000	RM’000	
Trading and services	16,781	26,237	(9,456)	(36.0)
Property development	4,065	8,257	(4,192)	(50.8)
Construction	8,218	4,237	3,981	94.0
Investment property	715	705	10	1.4
	29,779	39,436	(9,657)	(24.5)
Inter-segment elimination	(2,508)	(1,385)	(1,123)	(81.1)
	27,271	38,051	(10,780)	(28.3)

	3 months ended	3 months ended	Changes	
	31 March 2018 Profit/(Loss) before tax	31 March 2017 Profit/(Loss) before tax (Restated)	Amount	%
	RM’000	RM’000	RM’000	
Trading and services	(1,927)	(1,832)	(95)	(5.2)
Property development	(922)	1,196	(2,118)	(177.1)
Construction	(1,234)	(483)	(751)	(155.5)
Investment property	25	24	1	4.2
	(4,058)	(1,095)	(2,963)	(270.6)
Elimination	(182)	(644)	462	71.7
Unallocated income	1,414	77	1,337	1,736.4
Unallocated expenses	(660)	(807)	147	18.2
	(3,486)	(2,469)	(1,017)	(41.2)

A10 Valuation of property, plant and equipment

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

A11 Event subsequent to the balance sheet date

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

A12 Changes in composition of the Group

There were no changes in the composition of the Group for the current quarter and 3 months ended 31 March 2018.

A13 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 31 March 2018
	RM'000
Guarantees and contingencies relating to Borrowings of subsidiaries (unsecured)	12,136
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A14 Significant Related Party Transactions

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

	3 months ended 31 March 2018 RM'000
With companies in which certain Directors of the Company, have interests:	
Aramijaya Sdn Bhd	444
Danga Bay Sdn Bhd	112
Ekovest Construction Sdn Bhd	7,690
Iskandar Waterfront Sdn Bhd	1,506
Rampai Fokus Sdn Bhd	463

B1 Detailed analysis of the performance of all operating segment of the Group in 1Q 2018

Financial review for current quarter

	Individual Period (1st Quarter)		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter (Restated)	Amount	%
	31 March 2018 RM'000	31 March 2017 RM'000	RM'000	
Revenue	27,271	38,051	(10,780)	(28.3)
Gross profit	121	3,786	(3,665)	(96.8)
Results from operating activities	(4,600)	(2,072)	(2,528)	(122.0)
Share of profit/ (loss) of equity-accounted investments, net of tax	1,251	(235)	1,486	632.3
Loss before tax	(3,486)	(2,469)	(1,017)	(41.2)
Loss after tax	(2,807)	(2,969)	162	5.5
Loss attributable to owners of the Company	(2,814)	(2,969)	155	5.2

Current quarter ("1Q 2018") against preceding year corresponding quarter ("1Q 2017")

For the 1Q 2018, the Group registered revenue of RM27.271 million and loss before tax of RM3.486 million as compared to revenue of RM38.051 million and loss before tax of RM2.469 million reported in the 1Q 2017. The decrease in the Group revenue was mainly due to decrease in sales volume mainly from our trading sector. The Group reported higher loss before tax of RM3.486 million compared to loss of RM2.469 million in 1Q 2017, mainly due to decrease in revenue and the sale of completed unit from inventory in 1Q 2017.

The performance of the respective operating business segments for the 1Q 2018 under review as compared to the 1Q 2017 is analysed as follow:

Trading and services
The trading sector reported lower revenue of RM16.781 million in 1Q 2018 as compared to RM26.237 million in 1Q 2017, mainly due to lesser sales volume. Despite a decrease in the revenue, the loss recorded by trading sector is comparable for the two reporting period i.e. RM1.927 million in 1Q 2018 and RM1.832 million in 1Q 2017, substantially due to the non-recurrence of expenses incurred for business development overseas in 1Q 2018.

Property development
The property development sector registered a lower revenue of RM4.065 million in 1Q 2018 as compared to RM8.257 million in 1Q 2017, mainly due to the inclusion of sales of completed units from inventory in 1Q 2017. Following the decrease in revenue, the sector recorded a loss before tax of RM0.922 million in 1Q 2018.

Construction
The construction sector registered a higher revenue of RM8.218 million in 1Q 2018 as compared to RM4.237 million in 1Q 2017. The increase in revenue for 1Q 2018 was mainly due to increase in work done for our construction projects. The construction sector recorded loss of RM1.234 million compared to loss before tax of RM0.483 million in 1Q 2017 mainly due to increase in work done for project with lower profit margin and increase in overhead cost.

Investment property
Revenue for the current quarter increased marginally by 1.4% from RM0.705 million to RM0.715 million. Correspondingly, the profit before tax recorded in 1Q 2017 is comparable with 1Q 2018, RM0.025 million for the 1Q 2018 and RM0.024 million in 1Q 2017.

B2 Comparison with preceding quarter results

Current quarter (1Q 2018) against immediate preceding quarter (4Q 2017)

	Current Quarter	Immediate Preceding Quarter (Restated)	Changes	
	31 March 2018	31 December 2017	Amount	%
	RM'000	RM'000	RM'000	
Revenue	27,271	39,152	(11,881)	(30.3)
Gross profit/ (loss)	121	(1,717)	1,838	107.0
Results from operating activities	(4,600)	(4,483)	(117)	(2.6)
Share of profit of equity-accounted investments, net of tax	1,251	1,374	(123)	(9.0)
Loss before tax	(3,486)	(3,238)	(248)	(7.7)
Loss after tax	(2,807)	(3,329)	522	15.7
Loss attributable to owners of the Company	(2,814)	(3,324)	510	15.3

For 1Q 2018, the Group recorded revenue of RM27.271 million, a decrease of RM11.881 million or 30.3% from RM39.152 million in 4Q 2017. The Group also recorded a loss before tax of RM3.486 million as compared to loss before tax of RM3.238 million in 4Q 2017. The decrease in total revenue is mainly due to decrease in work done for our construction projects. Despite a decrease in revenue the loss recorded is comparable mainly due to higher provision for foreseeable loss in 4Q 2017.

B3 Prospects

The sluggish outlook for the construction and property development industry where the Group business substantially rely on, is expected to prolong and remain challenging to the Group's performance. Moving forward, the Group expect to increase its construction order book, with current book estimated at RM233.2 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 31 March 2018 RM '000	**3 months ended 31 March 2018 RM '000**
Income tax		
Current provision	(679)	(679)
Deferred tax	-	-
	(679)	(679)

B6 Corporate proposals

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

B7 Group borrowings

	As at 1st Quarter ended 2018		
	Long term	Short Term	Total borrowings
	RM'000	RM'000	RM'000
Secured			
Revolving credit	-	500	500
Unsecured			
Revolving credit	-	16,300	16,300
Finance lease liabilities	2,244	1,119	3,363
	2,244	17,919	20,163

	As at 1st Quarter ended 2017		
	Long term	Short Term	Total borrowings
	RM'000	RM'000	RM'000
Secured			
Revolving credit	-	1,000	1,000
Unsecured			
Revolving credit	-	11,600	11,600
Finance lease liabilities	982	1,226	2,208
	982	13,826	14,808

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 ("KMKSB") 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 ("Agreement") for an outstanding sum of RM19,574,186.09 (after netting off the RM500,000 collected on 23 September 2016).

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.

The winding up petition hearing continue to be postponed several times due to multiple Restraining Orders ("ROs") filed in different states.

The following is a summary of the latest winding up petition hearing on 18 January 2018 and 22 January 2018 at the Kuantan High Court:-

<u>KMKSB v KKMSB, Winding Up Petition No. 28NCC-49-12/2016</u>

The Court proceeded with the Hearing in the absence of the KKMSB and/or its solicitors, and granted as follows:-

a) KKMSB be wound up pursuant to winding up petition
b) Baltasar bin Maskor appointed as the private liquidator

<u>KMKSB v KINSB, Winding Up Petition No. 28NCC-50-12/2016</u>

KINSB's Chief Executive Officer ("CEO") sought for an adjournment of the hearing due to KINSB appointing new solicitors. The Court, in the interest of justice, had adjourned the hearing to 22 January 2018.

On 22 January 2018, the Court rejected KINSB's CEO request for another adjournment to appoint new solicitors, and thereafter proceeded to hear the winding up petition hearing proper. The Court ordered as follows:

a) KINSB be wound up pursuant to the winding up petition;
b) Duar Tun Kiat be appointed as Private Liquidator of KINSB as he gathers the majority creditors' consent.

KINSB filed a Notice of Motion to stay the Winding Up Order at the High Court. The decision for the motion to stay the Winding Up Order was deferred from 8 March 2018 to 3 April 2018. On 3 April 2018, the High Court dismissed KINSB's application for stay of the Winding Up Order.

KINSB has subsequently filed a further application ("Motion") to stay the Winding Up Order at the Court of Appeal.

Meanwhile, in view of the application filed by KINSB to stay the winding up order, KMKSB filed a motion at the Court of Appeal to obtain an order of security for costs in the sum of RM200,000 be paid by KINSB and/or its directors to KMKSB. Both applications by KINSB for a stay order and KMKSB for security for cost are now fixed for hearing on 8 August 2018.

The Board is of the opinion that the claim will not have any material adverse financial or operational impact as the Agreement was carried out on a back-to-back basis with KMKSB's customer who has paid for the steel bars and agreed not to hold KMKSB accountable nor liable for any losses suffered as a consequence of the said summon.

B9 Dividends declared

No interim dividend has been declared for the current quarter ended 31 March 2018.

B10 Earnings per share

	Current quarter ended 31 March 2018	Preceding year corresponding quarter ended 31 March 2017	Cumulative 3 months ended 31 March 2018	Cumulative 3 months ended 31 March 2017
	RM '000	RM '000	RM '000	RM '000
Loss for the year	(2,807)	(2,969)	(2,807)	(2,969)
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)	(2.82)	(2.98)	(2.82)	(2.98)
Diluted earnings 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 March 2018 RM'000	3 months ended 31 March 2018 RM'000
Loss before tax is arrived at after (crediting)/charging :		
Interest income	(164)	(164)
Other income including investment income	(255)	(255)
Interest expense	301	301
Depreciation and amortisation	1,031	1,031
Provision for and write off of receivables	22	22
(Reversal of)/Provision for foreseeable loss	1,825	1,825

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
31 March 2018					
Financial liabilities					
Finance lease liabilities	-	-	3,632	3,632	3,363
31 March 2017					
Financial liabilities					
Finance lease liabilities	-	-	2,409	2,409	2,207