

Notes to the interim financial report – 31 March 2019

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 2018.

A2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the preparation of the Group’s audited financial statements for the financial year ended 31 December 2018 except for the following:

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*

The above pronouncements are either not relevant or do not have any material impact on the interim financial statements of the Group upon their initial application. The Group has adopted the relevant standards from 1 January 2019 with practical expedients permitted under the standards.

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 2019.

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 period ended 31 March 2019.

A8 Dividends paid

No dividend was paid for the current quarter and period ended 31 March 2019.

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 2019") against preceding year corresponding quarter ("1Q 2018")

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	31 March 2019 Revenue	31 March 2018 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	35,166	14,960	20,206	135.1
Property development	2,786	4,065	(1,279)	(31.5)
Construction	41,277	8,218	33,059	402.3
Investment property	657	715	(58)	(8.1)
Other services	1,246	1,820	(574)	(31.5)
	81,132	29,778	51,354	172.5
Inter-segment elimination	(10,430)	(2,507)	(7,923)	(316.0)
	70,702	27,271	43,431	159.3

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	31 March 2019 Profit/(Loss) before tax	31 March 2018 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	1,663	(138)	1,801	1,305.1
Property development	765	903	(138)	(15.3)
Construction	837	(1,234)	2,071	167.8
Investment property	157	25	132	528.0
Other services	(1,687)	(1,776)	89	5.0
	1,735	(2,220)	3,955	178.2
Elimination	827	(461)	1,288	279.4
Unallocated income	627	1,414	(787)	(55.7)
Unallocated expenses	(2,177)	(394)	(1,783)	(452.5)
	1,012	(1,661)	2,673	160.9

A9 Segmental information (continued)

Current year to date (“YTD 2019”) against preceding year to date (“YTD 2018”)

	3 months ended	3 months ended	Changes	
	31 March 2019 Revenue	31 March 2018 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading and services	35,166	14,960	20,206	135.1
Property development	2,786	4,065	(1,279)	(31.5)
Construction	41,277	8,218	33,059	402.3
Investment Property	657	715	(58)	(8.1)
Other services	1,246	1,820	(574)	(31.5)
	81,132	29,778	51,354	172.5
Inter-segment elimination	(10,430)	(2,507)	(7,923)	(316.0)
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	1,012	(1,661)	2,673	160.9

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 period ended 31 March 2019.

A13 Changes in contingent liabilities

The Group has no contingent liabilities except for the following:-

	As at 31 March 2019
	RM'000
Guarantees and contingencies relating to the Borrowings of subsidiaries (unsecured)	24,165
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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 2019
	RM'000
With companies in which certain Directors of the Company, have interests:	
Aramijaya Sdn Bhd	560
Danga Bay Sdn Bhd	111
Ekoriver Construction Sdn Bhd	11,443
Ekovest Capital Sdn Bhd	115
Ekovest Construction Sdn Bhd	18,689
Iskandar Waterfront City Berhad and its subsidiaries	19,250
Rampai Fokus Sdn Bhd	259
Knusford Compass Sdn Bhd	152
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B1 Detailed analysis of the performance of all operating segment of the Group in 1Q 2019
Current quarter (“1Q 2019”) against preceding year corresponding quarter (“1Q 2018”)

	Individual Period (1 st Quarter)		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter	Amount	%
	31 March 2019 RM'000	31 March 2018 RM'000	RM'000	
Revenue	70,702	27,271	43,431	159.3
Gross Profit	6,383	1,946	4,437	228.0
Result from operating activities	1,601	(2,775)	4,376	157.7
Share of profit of equity-accounted investments, net of tax	422	1,251	(829)	(66.3)
Net profit/(loss) before Tax	1,012	(1,661)	2,673	160.9
Net profit/(loss) after Tax	730	(1,319)	2,049	155.3
Profit/(Loss) Attributable to Owners of the Company	727	(1,326)	2,053	154.8

For the 1Q 2019, the Group registered revenue of RM70.702 million and profit before tax of RM1.012 million as compared to revenue of RM27.271 million and loss before tax of RM1.661 million reported in the 1Q 2018.

The performance of the respective operating business segments for the 1Q 2019 under review as compared to the 1Q 2018 is analysed as follow:

Trading and services

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

Property development

The decrease in the revenue and profit before tax was mainly due to lesser sales of units for the quarter under review.

Construction

The increase in the revenue and profit before tax was mainly due to increase in construction work done.

Investment property

The decrease in revenue was due to termination of tenancy for certain units of Group's investment properties.

Other services

The decrease in revenue was mainly due to lesser landscape maintenance works during the period. The decrease in loss before tax was mainly due to deduction of overhead in 1Q 2019.

Financial review for financial year to date

	Individual Period (1 st Quarter)		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter	Amount	%
	31 March 2019 RM'000	31 March 2018 RM'000	RM'000	
Revenue	70,702	27,271	43,431	159.3
Gross Profit	6,383	1,946	4,437	228.0
Result from operating activities	1,601	(2,775)	4,376	157.7
Share of profit of equity-accounted investments, net of tax	422	1,251	(829)	(66.3)
Loss before Tax	1,012	(1,661)	2,673	160.9
Loss After Tax	730	(1,319)	2,049	155.3
Loss Attributable to Ordinary Equity Holders of Parent	727	(1,326)	2,053	154.8

Current year to date (“YTD 2019”) against preceding year corresponding period (“YTD 2018”)

For the YTD 2019, the financial review for the Group compared with the YTD 2018 are similar to the financial review of the current quarter (“1Q 2019”) against preceding year corresponding quarter (“1Q 2018”). Please refer to the above for the analysis of the performance of the respective operating business segments.

B2 Comparison with preceding quarter results
Current quarter (“1Q 2019”) against immediate preceding quarter (“4Q 2018”)

	Current Quarter	Immediate Preceding Quarter	Changes	
	31 March 2019	31 December 2018	Amount	%
	RM'000	RM'000	RM'000	
Revenue	70,702	102,313	(31,611)	(30.9)
Gross Profit/(loss)	6,383	(2,109)	8,492	402.7
Result from operating activities	1,601	(9,239)	10,840	117.3
Share of profit of equity-accounted investments, net of tax	422	2,158	(1,736)	(80.4)
Net profit/(loss) before tax	1,012	(8,528)	9,540	111.9
Net profit/(loss) after tax	730	(9,273)	10,003	107.9
Profit/(loss) attributable to Owners of the Company	727	(9,275)	10,002	107.8

For 1Q 2019, the Group recorded revenue of RM70.702 million, a decrease of RM31.611 million or 30.9% from RM102.313 million in 1Q 2018. However, the Group recorded profit before tax of RM1.012 million as compared to loss before tax of RM8.528 million in 4Q 2018. The decrease in revenue is mainly due to lesser contribution from construction sector. Despite a decrease in revenue as reported in 1Q 2019, a profit before tax was recorded as the 4Q 2018 include losses incurred on a construction project and additional provision for impairment on receivables.

B3 Prospects

Barring any unforeseen circumstances, the Board is cautiously optimistic that the performance of the Group will improve in view of the current order book of RM482.046 million. The Group will strive for new business opportunities and increase its construction order book in its effort for a commendable performance for the financial year ending 31 December 2019.

B4 Variance of actual profit from forecast profit / profit guarantee

Not applicable.

B5 Taxation

	Current quarter ended 31 March 2019 RM '000	3 months ended 31 March 2019 RM '000
Income tax		
Current provision	312	312
Deferred tax	(30)	(30)
	282	282

B6 Corporate proposals

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

B7 Group borrowings

	As at 1 st Quarter ended 2019		
	Long term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Revolving credit	-	-	-
Unsecured			
Revolving credit	-	7,800	7,800
Finance lease liabilities	1,744	1,281	3,025
	<u>1,744</u>	<u>9,081</u>	<u>10,825</u>
	As at 4 th Quarter ended 2018		
	Long term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Revolving credit	-	-	-
Unsecured			
Revolving credit	-	9,000	9,000
Finance lease liabilities	1,541	1,188	2,729
	<u>1,541</u>	<u>10,188</u>	<u>11,729</u>

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

B8 Changes in material litigation

The wholly-owned subsidiary of Knusford Berhad (“KB”), Knusford Marketing Sdn Bhd (“KMKSBB”) had served a notice under Section 218(1)(e) & 218(2)(a) of the Companies Act 1965 (collectively known as “Notices”) on Kinsteel Berhad (“KINSB”) and Kin Kee Marketing Sdn Bhd (“KKMSB”) on 25 November 2016 for failure, negligence and/or refusal to comply with a Consent Judgment dated 5 September 2016 recorded at the Kuantan High Court Suit No. 22NCVC-21-04/2016 which involved the sum of RM19,574,186.

Winding up petition was subsequently filed and served on both Companies, KINSB and KKMSB on 22 December 2016 at the Kuantan High Court.

The winding up petition hearing was postponed several times due to multiple Restraining Orders (“ROs”) filed by among others the Companies in different states.

The following is a summary of outcome of the said winding up petition:-

KMKSBB v KKMSB, Winding Up Petition No. 28NCC-49-12/2016

On 18 January 2018, the Court proceeded with the Hearing in absence of the KKMSB and/or its solicitors and ordered as follows:

- a) KKMSB be wound up pursuant to Section 218(1)(e) and 218(2)(a) of the Companies Act 1965
- b) Baltasar bin Maskor be appointed as private liquidator of KKMSB

KMKSBB v KINSB, Winding Up Petition No. 28NCC-50-12/2016

On 22 January 2018, the Court proceeded with the hearing and under order as follows:

- a) KINSB be wound up pursuant to Section 218(1)(e) and 218(2)(a) of the Companies Act 1965
- b) Duar Tuan Kiat be appointed as liquidator of KINSB as he gathers the majority creditors’ consent.

On 29 January 2018, KINSB lodged an appeal to the Court of Appeal against the Winding Up Order. The appeal is registered as Civil Appeal No. C-02(NCC)(A)-197-01/2018.

On 5 February, KINSB filed a motion at the Kuantan High Court to stay the Winding Up Order pending its appeal to the Court of Appeal. Decision for the motion was deferred from 8 March 2018 to 3 April 2018. On 3 April 2018, the High Court dismissed KINSB’s application for stay the Winding Up Order.

Court of Appeal Civil Appeal No. C-02(NCC)(A)-197-01/2018

KINSB subsequently filed another motion at the Court of Appeal on 12 April 2018 to stay the Winding Up Order.

Whilst KINSB’s motion was still ongoing, KMKSBB filed a motion at the Court of Appeal on 2 May 2018 to obtain for an order of security for costs in the sum of RM200,000 be paid by KINSB and/or its directors to KMKSBB. Both applications by KINSB for a stay order and KMKSBB for security for cost were fixed for hearing on 8 August 2018.

On 27 July 2018, KINSB agreed to pay an amount of security for the costs in the sum of RM100,000, which was to be shared among four respondents (KMKSBB, AmBank (M) Islamic Berhad, AmBank (M) Berhad and AmBank (M) Berhad in its capacity as agent for multiple lenders). KMKSBB agreed with the arrangement if it received RM25,000 by 3 August 2018 which KINSB honoured it.

On 8 August 2018, the motion for security for costs were struck out with no order as to costs upon receiving RM25,000 from KINSB on 3 August 2018.

During a Case Management on 12 November 2018, the Court fixed Hearing for the appeal proper on 26 November 2018.

However, 22 days before the appeal proper, i.e. on 4 November 2018, KINSB’s solicitors, Messrs Chooi, Saw & Lim (“CSL”) filed a motion to discharge themselves from acting for KINSB. The motion was heard on 10 January 2019. The Court dismissed the motion on the basis that the supporting affidavit which was affirmed by Chow Siew Wai on 5 November 2018 merely contained bare assertions that CSL was not able to obtain instructions from KINSB. No proof was forwarded by CSL to show CSL’s efforts in obtaining KINSB’s instruction.

B8 Changes in material litigation (cont'd)

Court of Appeal Civil Appeal No. C-02(NCC)(A)-197-01/2018 (cont'd)

During a Case Management before the Registrar on 10 January 2019, CSL sought a date to file a new motion to discharge. Despite being objected by solicitors for KMKSBB, AmBank (M) Islamic Berhad,

AmBank (M) Berhad and AmBank (M) Berhad in its capacity as agent for multiple lenders, the Registrar fixed a Case Management on 4 March 2019 for CSL to file the new motion.

CSL filed its second motion to discharge on 19 February 2019.

The appeal proper against the winding up order and the motion by CSL to discharge are fixed for Hearing on 25 June 2019.

B9 Dividends declared

No interim dividend has been declared for the current quarter ended 31 March 2019.

B10 Earnings per share

	Current quarter ended 31 March 2019	Preceding year corresponding quarter ended 31 March 2018	Cumulative 3 months ended 31 March 2019	Cumulative 3 months ended 31 March 2018
Profit/(loss) for the period attributable to owners of the Parent (RM'000)	730	(1,319)	730	(1,319)
Weighted average number of ordinary shares in issue ('000)	99,645	99,645	99,645	99,645
Basic earnings/(loss) per share (sen)	0.73	(1.33)	0.73	(1.33)
Diluted earnings per share (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 2019 RM'000	3 months ended 31 March 2019 RM'000
Loss before tax is arrived at after (crediting)/charging :		
Interest income	(204)	(204)
Other income including investment income	(241)	(241)
Interest expense		
- Unwinding of discount in relation to provision for onerous contract	1,058	1,058
- Others	157	157
Depreciation and amortisation	1,158	1,158
Provision for and write off of receivables	306	306

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 2019					
Financial liabilities					
Finance lease liabilities	-	-	3,167	3,167	3,025
31 March 2018					
Financial liabilities					
Finance lease liabilities	-	-	3,632	3,632	3,363