

Notes to the interim financial report – 30 June 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, other than as disclosed below:

MFRS 16: Leases – Impacts on financial statements

On MFRS 16 Leases, the Group adopt the new standard on the required effective date using the modified retrospective approach and recognise a right-of-use asset and a corresponding lease liability. The following table presents the impact of changes to the statements of financial position of the Group resulting from the adoption of MFRS 16 Leases as at 1 January 2019:

Group	31 December 2018 RM’000	Changes RM’000	1 January 2019 RM’000
Right-of-use assets	-	170	170
Non-current lease liabilities	-	70	70
Current lease liabilities	-	100	100

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 30 June 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 30 June 2019.

A8 Dividends paid

No dividend was paid for the current quarter and period ended 30 June 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 ("2Q 2019") against preceding year corresponding quarter ("2Q 2018")

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	30 June 2019 Revenue	30 June 2018 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading	35,349	15,866	19,483	122.8
Property development	633	642	(9)	(1.4)
Construction	68,282	9,086	59,196	651.5
Investment property	650	680	(30)	(4.4)
Other services	1,439	1,319	120	9.1
	106,353	27,593	78,760	285.4
Inter-segment elimination	(12,024)	(1,682)	(10,342)	(614.9)
	94,329	25,911	68,418	264.1

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	30 June 2019 Profit/(Loss) before tax	30 June 2018 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading	2,030	375	1,655	441.3
Property development	34	(786)	820	104.3
Construction	2,998	(13,733)	16,731	121.8
Investment property	126	145	(19)	(13.1)
Other services	(1,099)	(1,756)	657	37.4
	4,089	(15,755)	19,844	126.0
Elimination	(182)	(19)	(163)	(857.9)
Unallocated income	10	149	(139)	(93.3)
Unallocated expenses	(1,180)	(508)	(672)	(132.3)
	2,737	(16,133)	18,870	117.0

A9 Segmental information (continued)

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

	6 months ended	6 months ended	Changes	
	30 June 2019 Revenue	30 June 2018 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading	70,515	30,826	39,689	128.8
Property development	3,419	4,707	(1,288)	(27.4)
Construction	109,559	17,304	92,255	533.1
Investment Property	1,307	1,395	(88)	(6.3)
Other services	2,685	3,139	(454)	(14.5)
	187,485	57,371	130,114	226.8
Inter-segment elimination	(22,454)	(4,189)	(18,265)	(436.0)
	165,031	53,182	111,849	210.3

	6 months ended	6 months ended	Changes	
	30 June 2019 Profit/(Loss) before tax	30 June 2018 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading	3,693	237	3,456	1,458.2
Property development	799	117	682	582.9
Construction	3,835	(14,967)	18,802	125.6
Investment Property	183	170	13	7.6
Other services	(2,686)	(3,532)	846	24.0
	5,824	(17,975)	23,799	132.4
Elimination	645	(480)	1,125	234.4
Unallocated income	637	1,563	(926)	(59.2)
Unallocated expenses	(3,357)	(902)	(2,455)	(272.2)
	3,749	(17,794)	21,543	121.1

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 30 June 2019.

A13 Changes in contingent liabilities

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

	As at 30 June 2019
	RM'000
Guarantees and contingencies relating to the Borrowings of subsidiaries (unsecured)	22,825
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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: -

	6 months ended
	30 June 2019
	RM'000
With companies in which certain Directors of the Company, have interests:	
PLS Plantations Berhad and its subsidiaries	919
Danga Bay Sdn Bhd	221
Ekoriver Construction Sdn Bhd	29,224
Ekovest Capital Sdn Bhd	219
Ekovest Construction Sdn Bhd	55,713
Ekovest Properties Sdn Bhd	(119)
Iskandar Waterfront City Berhad and its subsidiaries	45,742
Rampai Fokus Sdn Bhd	507
Knusford Compass Sdn Bhd	337
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B1 Detailed analysis of the performance of all operating segment of the Group in 2Q 2019
Current quarter (“2Q 2019”) against preceding year corresponding quarter (“2Q 2018”)

	Individual Period (2 nd Quarter)		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter	Amount	%
	30 June 2019 RM'000	30 June 2018 RM'000	RM'000	
Revenue	94,329	25,911	68,418	264.1
Gross profit/(loss)	7,610	(11,912)	19,522	163.9
Result from operating activities	2,967	(16,143)	19,110	118.4
Share of loss of equity-accounted investments, net of tax	(215)	(141)	(74)	(52.5)
Net profit/(loss) before tax	2,737	(16,133)	18,870	117.0
Net profit/(loss) after tax	3,072	(16,125)	19,197	119.1
Profit/(loss) attributable to Owners of the Company	3,072	(16,125)	19,197	119.1

For the 2Q 2019, the Group registered revenue of RM94.329 million and profit before tax of RM2.737 million as compared to revenue of RM25.911 million and loss before tax of RM16.133 million reported in 2Q 2018.

The performance of the respective operating business segments for the 2Q 2019 under review as compared to the 2Q 2018 is analysed as follow:

Trading

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

Property development

Despite a marginal decrease in revenue, the sector had registered a profit before tax of RM0.034 million as compared to a loss of RM0.786 million in 2Q 2018, mainly due to lower overhead costs incurred in 2Q 2019.

Construction

The revenue has improved by RM59.196 million to RM68.282 million in the 2Q 2019 as compared to RM9.086 million in 2Q 2018 due to higher percentage of work progress in 2Q 2019. The sector also registered an improved results of RM2.998 million compared to a loss before tax of RM13.733 million, due to increase in work done and the inclusion of a provision of foreseeable losses on a construction project in 2Q 2018 of RM12.517 million.

Investment property

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

Other services

The increase in revenue was mainly due to increase in rental of plant and machinery revenue in 2Q 2019. This sector recorded a loss before tax of RM1.099 million as compared to loss before tax of RM1.756 million in 2Q 2018, mainly due to lesser overhead costs incurred in 2Q 2019.

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

	Cumulative Period		Changes	
	Current Year To-Date	Preceding Year To-Date	Amount	%
	30 June 2019 RM'000	30 June 2018 RM'000	RM'000	
Revenue	165,031	53,182	111,849	210.3
Gross profit/(loss)	13,993	(9,966)	23,959	240.4
Result from operating activities	4,568	(18,918)	23,486	124.1
Share of profit of equity-accounted investments, net of tax	207	1,110	(903)	(81.4)
Net profit/(loss) before tax	3,749	(17,794)	21,543	121.1
Net profit/(loss) after tax	3,802	(17,444)	21,246	121.8
Profit/(loss) attributable to Ordinary Equity Holders of Parent	3,802	(17,444)	21,246	121.8

For the YTD 2019, the Group recorded revenue of RM165.031 million, an increase of RM111.849 million or 210.3% from RM53.182 million in YTD 2018. The Group also recorded profit before tax of RM3.749 million in YTD 2019 as compared to a loss before tax of RM17.794 million in YTD 2018. The increase in revenue was mainly contributed by construction and trading sectors.

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

Trading

Revenue for the YTD 2019 has improved by RM39.689 million from RM30.826 million to RM70.515 million recorded in YTD 2018. Correspondingly, this sector also registered a higher profit of RM3.693 million in YTD 2019 as compared to YTD 2018 of RM0.237 million.

Property development

Despite a decrease in revenue from RM4.707 million in YTD 2018 to RM3.419 million in YTD 2019, the sector had registered a profit before tax of RM0.799 million as compared to RM0.117 million in YTD 2018, mainly due to lower overhead costs incurred in YTD 2019.

Construction

The construction sector registered a higher revenue of RM109.559 million in YTD 2019 as compared to RM17.304 million in YTD 2018. This sector recorded profit before tax of RM3.835 million in YTD 2019 as compared to loss before tax of RM14.967 million in YTD 2018 mainly due to a provision for foreseeable loss of RM12.517 million on a construction project recognised in YTD 2018.

Investment property

The investment property sector recorded a decrease in revenue of 6.3% from RM1.395 million to RM1.307 million due to termination of tenancy for certain units of Group's investment properties. However, the profit before tax increased from RM0.170 million to RM0.183 million was mainly due to lower overhead costs incurred in YTD 2019.

Other services

Despite a decrease in revenue, the sector registered a loss before tax of RM2.686 million as compared to RM3.532 million in YTD 2018, mainly due to lesser overhead costs incurred in YTD 2019.

B2 Comparison with preceding quarter results

Current quarter (“2Q 2019”) against immediate preceding quarter (“1Q 2019”)

	Current Quarter	Immediate Preceding Quarter	Changes	
	30 June 2019	31 March 2019	Amount	%
	RM'000	RM'000	RM'000	
Revenue	94,329	70,702	23,627	33.4
Gross profit	7,610	6,383	1,227	19.2
Result from operating activities	2,967	1,601	1,366	85.3
Share of (loss)/profit of equity-accounted investments, net of tax	(215)	422	(637)	(150.9)
Net profit before tax	2,737	1,012	1,725	170.5
Net profit after tax	3,072	730	2,342	320.8
Profit attributable to Owners of the Company	3,072	730	2,342	320.8

For 2Q 2019, the Group recorded revenue of RM94.329 million, an increase of RM23.627 million or 33.4% from RM70.702 million in 1Q 2019. The Group recorded profit before tax of RM2.737 million as compared to profit before tax of RM1.012 million in 1Q 2019. The increase in revenue and profit before tax are mainly contributed by trading and construction sectors.

B3 Prospects

Barring any unforeseen circumstances, the Board is cautiously optimistic that the performance of the Group will improve in view of the year-to-date performance and current order book of RM486.616 million. The Group will strive for new business opportunities and increase its construction order book in its effort for a better 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 30 June 2019 RM '000	6 months ended 30 June 2019 RM '000
Income tax		
Current provision	473	785
Deferred tax	(808)	(838)
	<u>335</u>	<u>(53)</u>

B6 Corporate proposals

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

B7 Group borrowings

	As at 30 June 2019		
	Long term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Finance lease liabilities	1,484	1,193	2,677
Unsecured			
Revolving credit	-	5,600	5,600
	1,484	6,793	8,277
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	As at 31 December 2018		
	Long term RM'000	Short Term RM'000	Total borrowings RM'000
Secured			
Finance lease liabilities	1,541	1,188	2,729
Unsecured			
Revolving credit	-	9,000	9,000
	1,541	10,188	11,729

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 ordered 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 of 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 instructions.

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 KMKSB, 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 were fixed for Hearing on 25 June 2019.

During the last Hearing on 25 June 2019, the Court allowed CSL's application to discharge from acting for KINSB. Upon allowing the same, the Court fixed next Hearing date on 12 July 2019 and strictly directed KINSB to appoint new solicitors to represent them for the next Hearing.

On 12 July 2019, Mr Ahmad Ezmeel bin Ahmad Tarmizi of Messrs Ezmeel & Co ("Ezmeel"), being the newly appointed solicitor for KINSB, updated the Court on decision by the Kuantan High Court Originating Summons No. CA-24NCC-4-06/2019 on 10 July 2019. The Kuantan High Court allowed an application by one of KINSB's contributories, Kin Kee Hardware Sdn Bhd under Section 366 of the Companies Act 2016 to convene a meeting with KINSB's creditors proposing a regularisation scheme. In view of the decision by the Kuantan High Court, Ezmeel requested for postponement of the above Hearing pending tabling of the regularization scheme.

The Court fixed the above appeal for Hearing on 15 October 2019.

B9 Dividends declared

No interim dividend has been declared for the current quarter ended 30 June 2019.

B10 Earnings per share

	Current quarter ended 30 June 2019	Preceding year corresponding quarter ended 30 June 2018	Cumulative 6 months ended 30 June 2019	Cumulative 6 months ended 30 June 2018
Profit/(loss) for the period attributable to owners of the Parent (RM'000)	3,072	(16,125)	3,802	(17,444)
Weighted average number of ordinary shares in issue ('000)	99,645	99,645	99,645	99,645
Basic earnings/(loss) per share (sen)	3.09	(16.18)	3.82	(17.51)
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 30 June 2019 RM'000	6 months ended 30 June 2019 RM'000
Loss before tax is arrived at after (crediting)/charging :		
Interest income	(226)	(430)
Other income including investment income	(249)	(490)
Interest expense		
- Unwinding of discount in relation to provision for onerous contract	-	1,058
- Others	241	398
Depreciation and amortisation	1,167	2,325
Provision for and write off of receivables	602	908

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 June 2019					
Financial liabilities					
Finance lease liabilities	-	-	2,795	2,795	2,677
30 June 2018					
Financial liabilities					
Finance lease liabilities	-	-	3,226	3,226	3,072