

Notes to the interim financial report – 30 September 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 September 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 September 2019.

A8 Dividends paid

No dividend was paid for the current quarter and period ended 30 September 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 ("3Q 2019") against preceding year corresponding quarter ("3Q 2018")

| | Current Year Quarter | Preceding Year Corresponding Quarter | Changes | |
|---------------------------|---------------------------|--------------------------------------|---------|--------|
| | 30 September 2019 Revenue | 30 September 2018 Revenue | Amount | % |
| | RM'000 | RM'000 | RM'000 | |
| Trading | 30,217 | 29,102 | 1,115 | 3.8 |
| Property development | 1,180 | - | 1,180 | 100.0 |
| Construction | 89,782 | 28,250 | 61,532 | 217.8 |
| Investment property | 661 | 642 | 19 | 3.0 |
| Other services | 1,407 | 1,808 | (401) | (22.2) |
| | 123,247 | 59,802 | 63,445 | 106.1 |
| Inter-segment elimination | (7,185) | (5,842) | (1,343) | (23.0) |
| | 116,062 | 53,960 | 62,102 | 115.1 |

| | Current Year Quarter | Preceding Year Corresponding Quarter | Changes | |
|----------------------|--|--|---------|---------|
| | 30 September 2019 Profit/(Loss) before tax | 30 September 2018 Profit/(Loss) before tax | Amount | % |
| | RM'000 | RM'000 | RM'000 | |
| Trading | (3,562) | 1,272 | (4,834) | (380.0) |
| Property development | 105 | (254) | 359 | 141.3 |
| Construction | 7,833 | (779) | 8,612 | 1,105.5 |
| Investment property | 63 | 50 | 13 | 26.0 |
| Other services | (993) | (1,322) | 329 | 24.9 |
| | 3,446 | (1,033) | 4,479 | 433.6 |
| Elimination | 117 | (4) | 121 | 3,025.0 |
| Unallocated income | 1,172 | 363 | 809 | 222.9 |
| Unallocated expenses | (630) | (2,033) | 1,403 | 69.0 |
| | 4,105 | (2,707) | 6,812 | 251.6 |

A9 Segmental information (continued)

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

| | 9 months ended | 9 months ended | Changes | |
|---------------------------|------------------------------|------------------------------|----------|---------|
| | 30 September 2019 Revenue | 30 September 2018 Revenue | Amount | % |
| | RM'000 | RM'000 | RM'000 | |
| Trading | 100,732 | 59,928 | 40,804 | 68.1 |
| Property development | 4,599 | 4,707 | (108) | (2.3) |
| Construction | 199,341 | 45,554 | 153,787 | 337.6 |
| Investment Property | 1,968 | 2,037 | (69) | (3.4) |
| Other services | 4,092 | 4,947 | (855) | (17.3) |
| | 310,732 | 117,173 | 193,559 | 165.2 |
| Inter-segment elimination | (29,639) | (10,031) | (19,608) | (195.5) |
| | 281,093 | 107,142 | 173,951 | 162.4 |

| | 9 months ended | 9 months ended | Changes | |
|----------------------|--|--|---------|---------|
| | 30 September 2019 Profit/(Loss) before tax | 30 September 2018 Profit/(Loss) before tax | Amount | % |
| | RM'000 | RM'000 | RM'000 | |
| Trading | 131 | 1,509 | (1,378) | (91.3) |
| Property development | 904 | (137) | 1,041 | 759.9 |
| Construction | 11,668 | (15,746) | 27,414 | 174.1 |
| Investment Property | 246 | 220 | 26 | 11.8 |
| Other services | (3,679) | (4,854) | 1,175 | 24.2 |
| | 9,270 | (19,008) | 28,278 | 148.8 |
| Elimination | 762 | (484) | 1,246 | 257.4 |
| Unallocated income | 1,809 | 816 | 993 | 121.7 |
| Unallocated expenses | (3,987) | (1,825) | (2,162) | (118.5) |
| | 7,854 | (20,501) | 28,355 | 138.3 |

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

Save as disclose below, there were no changes in the composition of the Group for the current quarter and period ended 30 September 2019:

On 25 October 2019, the Group acquired 1 ordinary share in Golden Sun Express Sdn Bhd (“GSE”) representing the entire issued and paid up share capital of GSE for a total cash consideration of RM1.

GSE has not commenced operation since its incorporation.

A13 Changes in contingent liabilities

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

| | As at 30 September 2019 |
|---|--------------------------------|
| | RM'000 |
| Guarantees and contingencies relating to the Borrowings of subsidiaries (unsecured) | 29,670 |
| | ===== |

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: -

| | 9 months ended |
|--|--------------------------|
| | 30 September 2019 |
| | RM'000 |
| With companies in which certain Directors of the Company, have interests: | |
| PLS Plantations Berhad and its subsidiaries | 1,441 |
| Ekoriver Construction Sdn Bhd | 47,670 |
| Ekovest Construction Sdn Bhd | 71,114 |
| Iskandar Waterfront City Berhad and its subsidiaries | 79,010 |
| Tropicana Danga Cove Sdn Bhd | 8,051 |
| | ===== |

B1 Detailed analysis of the performance of all operating segment of the Group in 3Q 2019
Current quarter (“3Q 2019”) against preceding year corresponding quarter (“3Q 2018”)

| | Individual Period (3 rd Quarter) | | Changes | |
|---|---|--------------------------------------|---------|-------|
| | Current Year Quarter | Preceding Year Corresponding Quarter | Amount | % |
| | 30 September 2019 RM'000 | 30 September 2018 RM'000 | RM'000 | |
| Revenue | 116,062 | 53,960 | 62,102 | 115.1 |
| Gross profit/(loss) | 5,277 | 2,771 | 2,506 | 90.4 |
| Result from operating activities | 3,206 | (1,611) | 4,817 | 299.0 |
| Share of loss of equity-accounted investments, net of tax | 938 | (957) | 1,895 | 198.0 |
| Net profit/(loss) before tax | 4,105 | (2,707) | 6,812 | 251.6 |
| Net profit/(loss) after tax | 3,716 | (3,025) | 6,741 | 222.8 |
| Profit/(loss) attributable to Owners of the Company | 3,716 | (3,025) | 6,741 | 222.8 |

For the 3Q 2019, the Group registered revenue of RM116.062 million and profit before tax of RM4.105 million as compared to revenue of RM53.960 million and loss before tax of RM2.707 million reported in 3Q 2018.

The performance of the respective operating business sector for the 3Q 2019 under review as compared to the 3Q 2018 is analysed as follow:

Trading

The trading sector reported revenue of RM30.217 million in 3Q 2019 as compared to RM29.102 million in 3Q 2018. Although the revenue has increased by RM1.115 million (3.8%) in 3Q 2019, the sector recorded a loss before tax of RM3.562 million as compared to profit before tax of RM1.272 million in 3Q 2018, mainly due to provision for impairment loss on trade receivable of RM5.292 million.

Property development

The revenue and profit before tax for this division showed an improvement, mainly due to revenue from the sale of completed units during the quarter.

Construction

The revenue has improved by RM61.532 million to RM89.782 million in the 3Q 2019 as compared to RM28.250 million in 3Q 2018 due to higher percentage of work progress in 3Q 2019. The sector also registered an improved results of RM7.833 million compared to a loss before tax of RM0.799 million in 3Q 2018, due to increase in work done.

Investment property

The increase in revenue and profit before tax were due to additional rental income from a new tenancy for an investment property of the Group.

Other services

The decrease in revenue was mainly due to decrease in rental of plant and machinery revenue in 3Q 2019. This sector recorded a loss before tax of RM0.993 million as compared to loss before tax of RM1.322 million in 3Q 2018, mainly due to lesser overhead costs incurred in 3Q 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 September 2019 RM'000 | 30 September 2018 RM'000 | RM'000 | |
| Revenue | 281,093 | 107,142 | 173,951 | 162.4 |
| Gross profit/(loss) | 19,270 | (7,195) | 26,465 | 367.8 |
| Result from operating activities | 7,774 | (20,529) | 28,303 | 137.9 |
| Share of profit of equity-accounted investments, net of tax | 1,145 | 153 | 992 | 648.4 |
| Net profit/(loss) before tax | 7,854 | (20,501) | 28,355 | 138.3 |
| Net profit/(loss) after tax | 7,518 | (20,469) | 27,987 | 136.7 |
| Profit/(loss) attributable to Ordinary Equity Holders of Parent | 7,518 | (20,469) | 27,987 | 136.7 |

For the YTD 2019, the Group recorded revenue of RM281.093 million, an increase of RM173.951 million or 162.4% from RM107.142 million in YTD 2018. The Group also recorded profit before tax of RM7.854 million in YTD 2019 as compared to a loss before tax of RM20.501 million in YTD 2018. The increase in revenue was mainly contributed by construction and trading sectors.

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

Trading

Despite an increase in revenue from RM59.928 million in YTD 2018 to RM100.732 million in YTD 2019, the sector had registered a reduced profit before tax of RM0.131 million as compared to RM1.509 million in YTD 2018, mainly due to a provision for impairment loss on trade receivable of RM5.292 million.

Property development

Despite a marginal decrease in revenue from RM4.707 million in YTD 2018 to RM4.599 million in YTD 2019, the sector had registered a profit before tax of RM0.904 million as compared to loss before taxation of RM0.137 million in YTD 2018, mainly due to lower overhead costs incurred in YTD 2019.

Construction

The construction sector registered a higher revenue of RM199.341 million in YTD 2019 as compared to RM45.554 million in YTD 2018. This sector recorded profit before tax of RM11.668 million in YTD 2019 as compared to loss before tax of RM15.746 million in YTD 2018 mainly due to higher percentage of work progress and reversal of provision for impairment loss on receivables of RM8.223 million after the finalisation of account from an old completed project.

Investment property

The investment property sector recorded a decrease in revenue of 3.4% from RM2.037 million to RM1.968 million due to termination of tenancy for certain units of Group’s investment properties. The profit before tax increased from RM0.220 million to RM0.246 million was mainly due to lower overhead costs incurred in YTD 2019.

Other services

Despite a decrease in revenue, the sector registered a lower loss before tax of RM3.679 million as compared to RM4.854 million in YTD 2018, mainly due to lesser overhead costs incurred in YTD 2019.

B2 Comparison with preceding quarter results

Current quarter (“3Q 2019”) against immediate preceding quarter (“2Q 2019”)

| | Current Quarter | Immediate Preceding Quarter | Changes | |
|--|-------------------|-----------------------------|---------|--------|
| | 30 September 2019 | 30 June 2019 | Amount | % |
| | RM'000 | RM'000 | RM'000 | |
| Revenue | 116,062 | 94,329 | 21,733 | 23.0 |
| Gross profit | 5,277 | 7,610 | (2,333) | (30.7) |
| Result from operating activities | 3,206 | 2,967 | 239 | 8.1 |
| Share of (loss)/profit of equity-accounted investments, net of tax | 938 | (215) | 1,153 | 536.3 |
| Net profit before tax | 4,105 | 2,737 | 1,368 | 50.0 |
| Net profit after tax | 3,716 | 3,072 | 644 | 21.0 |
| Profit attributable to Owners of the Company | 3,716 | 3,072 | 644 | 21.0 |

For 3Q 2019, the Group recorded revenue of RM116.062 million, an increase of RM21.733 million or 23.0% from RM94.329 million in 2Q 2019. The Group recorded profit before tax of RM4.105 million as compared to profit before tax of RM2.737 million in 2Q 2019. The increase in revenue is mainly contributed by trading and construction sectors, whereas the increase in profit before tax is mainly contributed by construction sector.

B3 Prospects

Barring any unforeseen circumstances, the Board is of the opinion that the performance of the Group will improve in view of the year-to-date performance and current order book of about RM420 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 September 2019 RM '000 | 9 months ended 30 September 2019 RM '000 |
|-------------------|---|--|
| Income tax | | |
| Current provision | 409 | 1,194 |
| Deferred tax | (20) | (858) |
| | <u>389</u> | <u>336</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 September 2019 | | |
|---------------------------|--------------------------------|------------------------------|------------------------------------|
| | Long term RM'000 | Short Term RM'000 | Total borrowings RM'000 |
| Secured | | | |
| Finance lease liabilities | 4,883 | 1,890 | 6,773 |
| Unsecured | | | |
| Revolving credit | - | 12,500 | 12,500 |
| | 4,883 | 14,390 | 19,273 |
| | 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 (“KMKS B”) 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:-

KMKS B 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

KMKS B 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 gathered consent of the majority creditors.

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 2018, 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.

The stay application was fixed for hearing on 12 July 2019, during the hearing, Encik 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.

B8 Changes in material litigation (cont'd)
Kuantan High Court Summons No. CA-28PW-41-10/2019

On 9 October 2019, our solicitor received service of an application by KINSB to stay the winding up order dated 22 January 2018 until full completion and execution of Scheme of Arrangement and Compromise (“the Stay Application”). The Stay Application was fixed for Hearing on 10 October 2019.

The Judge, having considered grounds contained in certificate of urgency filed by KINSB’s solicitors granted and fixed the following:-

- a) that the hearing at the Court of Appeal be stayed pending disposal of the Stay Application;
- b) hearing of the Stay Application is fixed on 20 November 2019;
- c) parties are directed to exhaust affidavit and file submission on or before 13 November 2019; and
- d) cost of the day of RM2,000.00 be awarded to each firm attending the matter on that day to be paid on or before 20 November 2019.

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

Despite the ad-interim by the High Court, on 15 October 2019, the hearing at Court of Appeal was held and the Court granted the following orders:

- a) The Appeal was dismissed; and
- b) Costs of RM 25,000.00 be paid to each Respondents subject to allocator.

B9 Dividends declared

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

B10 Earnings per share

| | Current quarter ended 30 September 2019 | Preceding year corresponding quarter ended 30 September 2018 | Cumulative 9 months ended 30 September 2019 | Cumulative 9 months ended 30 September 2018 |
|--|--|---|--|--|
| Profit/(loss) for the period attributable to owners of the Parent (RM'000) | 3,716 | (3,025) | 7,518 | (20,469) |
| Weighted average number of ordinary shares in issue ('000) | 99,645 | 99,645 | 99,645 | 99,645 |
| Basic earnings/(loss) per share (sen) | 3.73 | (3.03) | 7.54 | (20.54) |
| 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 September 2019 RM'000 | 9 months ended 30 September 2019 RM'000 |
|---|--|---|
| Loss before tax is arrived at after (crediting)/charging : | | |
| Interest income | (235) | (665) |
| Other income including investment income | (8,785) | (9,275) |
| Interest expense | | |
| - Unwinding of discount in relation to provision for onerous contract | - | 1,058 |
| - Others | 274 | 672 |
| Depreciation and amortisation | 1,169 | 3,494 |
| Provision for and write off of receivables | 7,109 | 8,017 |

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 2019 | | | | | |
| Financial liabilities | | | | | |
| Finance lease liabilities | - | - | 7,332 | 7,332 | 6,773 |
| 30 September 2018 | | | | | |
| Financial liabilities | | | | | |
| Finance lease liabilities | - | - | 3,028 | 3,028 | 2,893 |