

Notes to the interim financial report – 30 September 2020

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 2019.

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 2019 except for the following:

Amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business*
- Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*
- Amendments to MFRS 9, *Financial Instruments*, MFRS 139, *Financial Instruments: Recognition and Measurement* and MFRS 7, *Financial Instruments: Disclosures – Interest Rate Benchmark Reform*

The initial application of the amendments are not expected to have any material financial impacts to the current period and prior period financial statements of the Group.

Amendments effective for annual periods beginning on or after 1 June 2020

- Amendments to MFRS 16, *Leases – Covid-19-Related Rent Concessions*

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 2020.

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 2020.

A8 Dividends paid

No dividend was paid for the current quarter and period ended 30 September 2020.

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 2020") against preceding year corresponding quarter ("3Q 2019")

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	30 September 2020 Revenue	30 September 2019 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading	31,479	30,217	1,262	4.2
Property development	2,085	1,180	905	76.7
Construction	72,010	89,782	(17,772)	(19.8)
Investment property	698	661	37	5.6
Other services	580	1,407	(827)	(58.8)
	106,852	123,247	(16,395)	(13.3)
Inter-segment elimination	(11,960)	(7,185)	(4,775)	(66.5)
	94,892	116,062	(21,170)	(18.2)

	Current Year Quarter	Preceding Year Corresponding Quarter	Changes	
	30 September 2020 Profit/(Loss) before tax	30 September 2019 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading	1,768	(3,562)	5,330	149.6
Property development	386	105	281	267.6
Construction	7,304	7,833	(529)	(6.8)
Investment property	111	63	48	76.2
Other services	(1,214)	(993)	(221)	(22.3)
	8,355	3,446	4,909	142.5
Interest income	204	235	(31)	(13.2)
Interest expense	(704)	(274)	(430)	(156.9)
Share of (loss)/profit of equity-accounted investments	(221)	936	(1,157)	(123.6)
Unallocated other expenses	(520)	(238)	(282)	(118.5)
	7,114	4,105	3,009	73.3

A9 Segmental information (continued)

Current year to date (“YTD 2020”) against preceding year to date (“YTD 2019”)

	9 months ended	9 months ended	Changes	
	30 September 2020 Revenue	30 September 2019 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading	82,422	100,732	(18,310)	(18.2)
Property development	3,854	4,599	(745)	(16.2)
Construction	140,955	199,341	(58,386)	(29.3)
Investment Property	2,176	1,968	208	10.6
Other services	2,842	4,092	(1,250)	(30.5)
	232,249	310,732	(78,483)	(25.3)
Inter-segment elimination	(29,648)	(29,639)	(9)	0.0
	202,601	281,093	(78,492)	(27.9)

	9 months ended	9 months ended	Changes	
	30 September 2020 Profit/(Loss) before tax	30 September 2019 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading	3,983	131	3,852	2,940.5
Property development	437	904	(467)	(51.7)
Construction	5,384	11,668	(6,284)	(53.9)
Investment Property	757	246	511	207.7
Other services	(3,150)	(3,679)	529	14.4
	7,411	9,270	(1,859)	(20.1)
Interest income	632	665	(33)	(5.0)
Interest expense	(1,635)	(1,730)	95	5.5
Share of (loss)/profit of equity-accounted investments	(1,562)	1,144	(2,706)	(236.5)
Unallocated other expenses	(1,246)	(1,495)	249	16.7
	3,600	7,854	(4,254)	(54.2)

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 period ended 30 September 2020.

A13 Changes in contingent liabilities

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

	As at 30 September 2020
	RM'000
Guarantees and contingencies relating to the Borrowings of subsidiaries (unsecured)	9,770
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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: -

	9 months ended
	30 September 2020
	RM'000
With companies in which certain Directors of the Company, have interests:	
Ekovest Berhad and its subsidiaries, jointly controlled and associate companies	70,054
Iskandar Waterfront City Berhad and its subsidiaries jointly controlled and associate companies	15,343
Iskandar Waterfront Holdings Sdn Bhd and its subsidiaries, jointly controlled and associate companies	40,906
PLS Plantations Berhad and its subsidiaries, jointly controlled and associate companies	1,612
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B1 Detailed analysis of the performance of all operating segment of the Group in 3Q 2020
Current quarter (“3Q 2020”) against preceding year corresponding quarter (“3Q 2019”)

	Individual Period (3 rd Quarter)		Changes	
	Current Year Quarter	Preceding Year Corresponding Quarter	Amount	%
	30 September 2020 RM'000	30 September 2019 RM'000	RM'000	
Revenue	94,892	116,062	(21,170)	(18.2)
Gross profit	11,282	5,277	6,005	113.8
Result from operating activities	7,834	3,206	4,628	144.4
Share of (loss)/profit of equity-accounted investments, net of tax	(220)	938	(1,158)	(123.5)
Net profit before tax	7,114	4,105	3,009	73.3
Net profit after tax	6,375	3,716	2,659	71.6
Profit attributable to Owners of the Company	6,375	3,716	2,659	71.6

For the 3Q 2020, the Group registered revenue of RM94.892 million and profit before tax of RM7.114 million as compared to revenue of RM116.062 million and profit before tax of RM4.105 million reported in 3Q 2019. Profit before tax increased to RM7.114 million as compared to RM4.105 million in 3Q 2019, mainly due to provision of impairment on trade receivable of RM5.292 million in 3Q 2019. The Group shared a loss of RM0.220 million from the equity accounted investment as compared to profit of RM0.938 million in 3Q 2019.

The performance of the respective operating business sector for the 3Q 2020 under review as compared to the 3Q 2019 is analysed as follow:

Trading

Revenue increased by 4.2% to RM31.479 million as compared to RM30.217 million in 3Q 2019. Despite a revenue increase of only RM1.262 million (4.2%) in 3Q 2020, the sector recorded a profit before tax of RM1.768 million as compared to loss before tax of RM3.562 million in 3Q 2019, mainly due to provision for impairment loss on trade receivable of RM5.292 million in 3Q 2019.

Property development

The revenue and profit before tax for this division showed an improvement, mainly due to increase in sales of units in 3Q 2020.

Construction

The construction sector registered a lower revenue of RM72.010 million in 3Q 2020 as compared to RM89.782 million in 3Q 2019 and a profit of RM7.304 million as compared to profit before tax of RM7.833 million in 3Q 2019. The continued implementation of Conditional Movement Control Order (“CMCO”) and related precautionary measures taken had hindered the construction progress resulted in lesser construction revenue. The decreased in the profit before tax is in tandem with the decreased in revenue.

Investment property

The revenue has improved by RM0.037 million to RM0.698 million in the 3Q 2020 as compared to RM0.661 million in 3Q 2019. This sector also recorded a higher profit before tax of RM0.111 million in 3Q 2020 as compared to profit before tax of RM0.063 million in 3Q 2019, mainly due to rental revision for our investment properties.

Other services

This sector recorded a significant drop in revenue from RM1.407 million to RM0.580 million and resulted in an increase in loss before tax of RM1.214 million in 3Q 2020 as compared to loss before tax of RM0.993 million in 3Q 2019, mainly due to decrease in rental of plant and machinery in 3Q 2020.

Current year to date (“YTD 2020”) against preceding year corresponding period (“YTD 2019”)

	Cumulative Period		Changes	
	Current Year To-Date	Preceding Year To-Date	Amount	%
	30 September 2020 RM'000	30 September 2019 RM'000	RM'000	
Revenue	202,601	281,093	(78,492)	(27.9)
Gross Profit	16,551	19,270	(2,719)	(14.1)
Result from operating activities	6,164	7,774	(1,610)	(20.7)
Share of (loss)/profit of equity-accounted investments, net of tax	(1,561)	1,145	(2,706)	(236.3)
Profit before Tax	3,600	7,854	(4,254)	(54.2)
Profit After Tax	2,191	7,518	(5,327)	(70.9)
Profit Attributable to Ordinary Equity Holders of Parent	2,191	7,518	(5,327)	(70.9)

For the YTD 2020, the Group recorded revenue of RM202.601 million, a decrease of RM78.492 million or 27.9% from RM281.093 million in YTD 2019. The Group also recorded profit before tax of RM3.600 million in YTD 2020 as compared to a profit before tax of RM7.854 million in YTD 2019. The decrease in revenue was mainly due to lesser revenue contribution by construction and trading sector.

The implementation of MCO by the authority since 18 March 2020, followed by the CMCO, RMCO and CMCO again, leading to construction site shut down and related precautionary measures taken also hinder the construction progress. As the Group business operations was adversely affected by the Covid-19 pandemic, the Group's revenue and earnings dropped significantly.

The Group shared a loss of RM1.561 million in YTD 2020 for the equity accounted investment as compared with a profit of RM1.145 million in YTD 2019, mainly due to provision for impairment on its property, plant and equipment upon completion of the project.

The performance of the respective operating business segments for the YTD 2020 under review as compared to the YTD 2019 is analysed as follow:

Trading

The trading sector reported a lower revenue of RM82.422 million in YTD 2020 as compared to RM100.732 million in YTD 2019, mainly due to lesser demand from existing key customers. Despite the decreased in revenue, the sector recorded a higher profit before tax of RM3.983 million in YTD 2020 as compared to RM0.131 million in YTD 2019, mainly due to the provision for impairment loss on trade receivables of RM5.292 million in YTD 2019.

Property development

The property development sector registered a lower revenue of RM3.854 million in YTD 2020 as compared to RM4.599 million in YTD 2019, mainly due to lesser units sold in YTD 2020. Correspondingly, a lesser profit before tax from RM0.904 million in YTD 2019 to RM0.437 million in YTD 2020 was reported.

Construction

The construction sector registered a lower revenue of RM140.955 million in YTD 2020 as compared to RM199.341 million in YTD 2019. This sector recorded lower profit before tax of RM5.384 million in YTD 2020 as compared to profit before tax of RM11.668 million in YTD 2019 mainly due to lower revenue contribution in YTD 2020.

Current year to date (“YTD 2020”) against preceding year corresponding period (“YTD 2019”) (cont’d)
Investment property

The investment property sector recorded an increase in revenue of RM2.176 million in YTD 2020, a marginal increase of RM0.208 million as compared to RM1.968 million in YTD 2019, mainly due to rental revision for our investment properties. This sector also recorded a higher profit before tax of RM0.757 million in YTD 2020 as compared to profit before tax of RM0.246 million in YTD 2019, mainly due to gain on disposal of an investment property of RM0.423 million in YTD 2020.

Other services

The decrease in revenue from RM4.092 million in YTD 2019 to RM2.842 million in YTD 2020 was mainly due to decrease in rental of plant and machinery in YTD 2020. This sector recorded a lower loss before tax of RM3.150 million in YTD 2020 as compared to loss before tax of RM3.679 million in YTD 2019.

B2 Comparison with preceding quarter results
Current quarter (“3Q 2020”) against immediate preceding quarter (“2Q 2020”)

	Current Quarter	Immediate Preceding Quarter	Changes	
	30 September 2020	30 June 2020	Amount	%
	RM'000	RM'000	RM'000	
Revenue	94,892	54,078	40,814	75.5
Gross profit	11,282	2,216	9,066	409.1
Result from operating activities	7,834	(773)	8,607	1,113.5
Share of loss of equity-accounted investments, net of tax	(220)	(1,418)	1,198	84.5
Net profit/(loss) before tax	7,114	(2,688)	9,802	364.7
Net profit/(loss) after tax	6,375	(3,146)	9,521	302.6
Profit/(Loss) attributable to Owners of the Company	6,375	(3,146)	9,521	302.6

	Current Year Quarter	Immediate Preceding Quarter	Changes	
	30 September 2020 Revenue	30 June 2020 Revenue	Amount	%
	RM'000	RM'000	RM'000	
Trading	31,479	26,427	5,052	19.1
Property development	2,085	-	2,085	100.0
Construction	72,010	33,029	38,981	118.0
Investment property	698	713	(15)	(2.1)
Other services	580	1,455	(875)	(60.1)
	106,852	61,624	45,228	73.4
Inter-segment elimination	(11,960)	(7,546)	(4,414)	(58.5)
	94,892	54,078	40,814	75.5

	Current Year Quarter	Immediate Preceding Quarter	Changes	
	30 September 2020 Profit/(Loss) before tax	30 June 2020 Profit/(Loss) before tax	Amount	%
	RM'000	RM'000	RM'000	
Trading	1,768	1,700	68	4.0
Property development	386	(194)	580	299.0
Construction	7,304	(1,456)	8,760	601.6
Investment property	111	577	(466)	(80.8)
Other services	(1,214)	(992)	(222)	(22.4)
	8,355	(365)	8,720	2,389.0
Interest income	204	154	50	32.5
Interest expense	(704)	(651)	(53)	(8.1)
Share of loss of equity-accounted investments	(221)	(1,418)	1,197	84.4
Unallocated other expenses	(520)	(408)	(112)	(27.5)
	7,114	(2,688)	9,802	364.7

For 3Q 2020, the Group recorded revenue of RM94.892 million, an increase of RM40.814 million or 75.5% from RM54.078 million in 2Q 2020. The Group recorded profit before tax of RM7.114 million as compared to loss before tax of RM2.688 million in 2Q 2020. The Group's revenue has increased as compared to 2Q 2020 mainly due to an increase in work done for construction sector.

The gross profit for the 3Q 2020 is better than 2Q 2020, mainly due to reversal of certain cost in finalizing certain subcontractors' fees for prior year completed construction project.

B3 Prospects

The Covid-19 pandemic is unprecedented and its impact and ripple effects are still yet to be reliably predicted. At this juncture, the outlook for the local construction and property industry is expected to remain competitive and challenging. We are facing the consequence of the Covid-19 pandemic with most of our construction activities and that of our customers being halted or slowdown during the implementation of nationwide MCO and CMCO from 18 March 2020 to 3 May 2020 and 4 May 2020 to 9 June 2020 respectively. Although the Group resumed operation at higher level of activities since the implementation of nationwide RMCO on 10 June 2020, we expect our financial performance in terms of revenue and earnings for the remaining period for the current financial year to remain challenging amidst the uncertainties arising from the pandemic.

The Board is mindful of the risks arising from Covid-19 pandemic and will continue to take all proactive measures to ensure the existing business remains sustainable, resilient and will focus in delivering and completing all our projects in hand within the budgeted cost and on agreed time frame.

As at 30 September 2020, the Group's unbilled construction order book is about RM553 million.

B4 Variance of actual profit from forecast profit / profit guarantee

Not applicable.

B5 Taxation

	Current quarter ended 30 September 2020 RM '000	9 months ended 30 September 2020 RM '000
Income tax		
Current provision	778	1,454
Deferred tax	(39)	(45)
	739	1,409
	739	1,409

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 2020		
	Non-current RM'000	Current RM'000	Total borrowings RM'000
Secured			
Hire purchase liabilities	6,763	3,227	9,990
Lease liabilities	27	20	47
Unsecured			
Revolving credit	-	8,400	8,400
	6,790	11,647	18,437
	6,790	11,647	18,437
	As at 30 September 2019		
	Non-current RM'000	Current RM'000	Total borrowings RM'000
Secured			
Hire purchase liabilities	4,883	1,890	6,773
Lease liabilities	51	79	130
Unsecured			
Revolving credit	-	12,500	12,500
	4,934	14,469	19,403
	4,934	14,469	19,403

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 (“KMKSb”) 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 RM19,574,186.09.

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 in different states.

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

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

On 18 January 2018, the Court proceeded with winding up Hearing in absence of the KKMSB’s directors 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 liquidator of KKMSB

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

On 22 January 2018, the Court proceeded with winding up 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 trial for this matter was concluded on 15 October 2019, the Court of Appeal dismissed the appeal with costs.

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. The trial for this matter was concluded on 20 November 2020, the Kuantan High Court dismissed the appeal with costs.

The Board is of the opinion that the above suit will not have any material adverse financial or operational impact as the claim involved a back-to-back agreement with KMKSb’s customer who has paid for steel bars which were to be delivered to them and agreed not to hold KMKSb accountable nor liable for any losses suffered (if any).

B9 Dividends declared

No interim dividend has been declared for the current quarter and period ended 30 September 2020.

B10 Earnings per share

	Current quarter ended 30 September 2020	Preceding year corresponding quarter ended 30 September 2019	Cumulative 9 months ended 30 September 2020	Cumulative 9 months ended 30 September 2019
(Loss)/Profit for the period attributable to owners of the Parent (RM'000)	6,375	3,716	2,191	7,518
Weighted average number of ordinary shares in issue ('000)	99,645	99,645	99,645	99,645
Basic (loss)/earnings per share (sen)	6.40	3.73	2.20	7.54
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 2020 RM'000	9 months ended 30 September 2020 RM'000
Loss before tax is arrived at after (crediting)/charging :		
Interest income	(204)	(632)
Other income including investment income	(653)	(1,083)
Interest expense		
- Unwinding of discount in relation to provision for onerous contract	216	648
- Others	488	987
Depreciation and amortisation	1,255	3,575
Provision for and write off of receivables	409	868
Reversal of impairment loss on receivables	(285)	(285)
(Gain) or loss on disposal of investment properties	-	(423)
Impairment loss on inventory	-	-

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	Level 2	Level 3	Total fair value	Carrying amount
	RM'000	RM'000	RM'000	RM'000	RM'000
30 September 2020					
Financial liabilities					
Finance lease liabilities	-	-	10,633	10,633	9,990
30 September 2019					
Financial liabilities					
Finance lease liabilities	-	-	7,332	7,332	6,773