

## A. EXPLANATORY NOTES PURSUANT TO FRS 134

### 1. BASIS OF PREPARATION

The interim financial statements have been prepared under the historical cost convention except for the investment properties which have been measured at fair values.

The interim financial statements are unaudited and have been prepared in accordance with the requirements of FRS 134: Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2010. These 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 2010.

The accounting policies and methods of computation adopted by the Group in these interim financial statements are consistent with those adopted in the financial statements for the year ended 31 December 2010 except for the adoption of the following new and revised Financial Reporting Standards (“FRSs”) and Issues Committee (“IC”) Interpretations which are relevant to the Group’s operation with effect from 1 January 2011:

Amendments to FRS 1	Limited Exemption for Comparative FRS 7 Disclosures for First-time Adopters
Amendments to FRS 7	Improving Disclosures about Financial Instruments
Additional Exemptions for First-Time Adopters (Amendments to FRS 1)	
Group Cash-settled Share-based Payment Transactions (Amendments to FRS 2)	
IC Interpretation 4	Determining whether an Arrangement contains a Lease
IC Interpretation 18	Transfers of Assets from Customers
TR 3	Guidance on Disclosure of Transition to IFRSs
TR i - 4	Shariah Compliant Sale Contracts

The adoption of the above did not have any significant effects on the interim financial report upon their initial application, other than as discussed below:

#### **Revised FRS 3 Business Combinations and Amendments to FRS 127 Consolidated and Separate Financial Statements**

The revised standards are effective for annual periods beginning on or after 1 July 2010. The revised FRS 3 introduces a number of changes in the accounting for business combinations occurring after 1 July 2010. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The Amendments to FRS 127 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity

transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments have been made to FRS 107 Statements of Cash Flows, FRS 112 Income Taxes, FRS 121 The Effects of Changes in Foreign Exchange Rates, FRS 128 Investments in Associates and FRS 131 Interests in Joint Ventures. The changes from revised FRS 3 and Amendments to FRS 127 will affect future acquisitions or loss of control and transactions with minority interests.

**FRSIC Consensus 17 – Development of Affordable Housing issued by Malaysian Institute of Accountants on 24 November 2011**

The effects arising from the adoption of FRSIC consensus 17 are as follows:

	<b>Increase/(Decrease)</b> <b>RM'000</b>
Provision for foreseeable loss in construction and sales of affordable housing	(65,253)
Land held for property development	36,616
Property development costs	1,492
Cost of sales	1,120
Retained profit	19,519
Deferred taxation	6,786
Taxation	(280)

**2. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the financial statements for the year ended 31 December 2010 was not qualified.

### 3. SEGMENTAL INFORMATION

The segment revenues and segment results for business segments for the current financial period to date are as follows: -

	Property Development RM'000	Property Investment RM'000	Property Management RM'000	Car Park Operator RM'000	Investment Holding RM'000	Elimination RM'000	Consolidated RM'000
<b>REVENUE</b>							
External sales:							
-Sales of properties	224,325	-	-	-	-	-	224,325
-Rental income	-	39,429	-	-	-	-	39,429
-Car park management income	-	-	-	1,910	-	-	1,910
-Others	-	6,570	-	-	-	-	6,570
Inter-segment sales	-	3,195	-	-	4,292	(7,487)	-
Total	224,325	49,194	-	1,910	4,292	(7,487)	272,234
<b>OTHER INCOME</b>							
Rental income	3,566*	-	-	-	-	-	3,566
Others	2,191	43	-	-	-	-	2,234
Total	5,757	43	-	-	-	-	5,800
<b>RESULTS</b>							
Segment results	86,635	36,652	(5)	1,624	2,924	(6,075)	121,755
Finance cost							(9,935)
Profit before tax							111,820
Taxation							(23,906)
Net profit for the Period							87,914

Segmental reporting by geographical segments has not been prepared as all activities of the Group's operations are carried out within Malaysia.

Note: \* Rental income arising from letting of vacant undeveloped land and unsold inventory.

#### **4. ITEMS OF UNUSUAL NATURE AND AMOUNTS**

There were no items affecting the assets, liabilities, equity, net income or cash flows of the Group during the financial quarter ended 31 December 2011 that are unusual because of their nature, size or incidence except for the loss from fair value adjustment of approximately RM5.4 million on investment properties resulting from the recognition of variation orders due to additional works done during the year.

#### **5. CHANGES IN ESTIMATES**

There were no changes in estimates that have had a material effect in the current quarter results.

#### **6. SEASONAL OR CYCLICAL FACTORS**

The business operations of the Group were not affected by any significant seasonal or cyclical factors in the current quarter.

#### **7. DIVIDENDS PAID**

There were no dividends paid during the current quarter.

#### **8. CARRYING AMOUNT OF REVALUED ASSETS**

The value of the investment properties have been adjusted to fair value at the end of the financial year ended 31 December 2011.

#### **9. DEBT AND EQUITY SECURITIES**

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter.

#### **10. CHANGES IN COMPOSITION OF THE GROUP**

There were no changes in the composition of the Group during the current quarter.

#### **11. COMMITMENT**

The amount of commitment not provided for in the financial statements as at 31 December 2011 is as follow:

	<b>RM</b>
<u>Approved and contracted for:</u>	
Acquisition of land	25,583,900
Capital expenditure pertaining to the construction of properties (KSL Resort)	<u>21,432,500</u>
	<u><u>47,016,400</u></u>

## 12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets since the last audited Statement of Financial Position as at 31 December 2010.

## 13. RECURRENT RELATED PARTY TRANSACTIONS

The significant recurrent related party transactions for the financial period were summarized as follow:-

<u>Group</u>	<u>RM</u>
<b><u>Rental received from:</u></b>	
Bestari Bestmart Sdn Bhd	1,512,000
Harapan Terang Motor Sdn Bhd	20,400
<b><u>Purchases from :</u></b>	
Harapan Terang Motor Sdn Bhd	37,918
Wawasan Batu-Bata Sdn Bhd	2,901,384
Bintang-Bintang Sdn Bhd	126,000

## 14. EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL POSITION

There were no material events subsequent to the end of the interim period which have not been reflected in the financial statements for the interim period under review.

**B. EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**15. PERFORMANCE REVIEW**

The Group has registered revenue and profit before taxation of RM69.0 million and RM20.1 million respectively for the current quarter ended 31 December 2011. This represents an increase of approximately 86% and a decrease of 80% respectively over the results achieved in the preceding corresponding quarter ended 31 December 2010.

The current quarter's performance was mainly contributed by the Group's flagship projects in Johor Bahru, Muar, Yong Peng and Segamat namely KSL City Shopping Mall, Taman Nusa Bestari, Taman Bestari Indah, Taman Kempas Indah and Maharani Riviera.

The higher Group's revenue was mainly due to the change in sales mixed and higher percentage of completion of the existing main on-going projects of the Group, especially in Johor Bahru. However the lower Group's profit before taxation was mainly due to the loss of approximately RM5.4 million from the fair value adjustment of investment properties as highlighted in the note below:-

The current quarter's performance is explained in the detailed financial analysis below:

	Fourth Quarter Ended 31.12.11 RM'000	Fourth Quarter Ended 31.12.10 RM'000	Variences Increase/ (Decrease) RM'000	%
Revenue	68,976	37,005	31,971	86
Cost of sales	31,755	14,393	17,362	121
Other income	1,395	83,421**	(82,026)	(98)
Selling and marketing expenses	2,743	1,518	1,225	81
Administrative expenses (inclusive of loss in fair value adjustment of RM5.376m)	12,802*	4,108	8,694	212
Other expenses	6	12	(6)	(50)
Finance costs	2,974	2,184	790	36
Profit before taxation	20,091	98,211	(78,120)	(80)

***Note :***

<b><i>Fair value adjustment</i></b>	<b><i>(5,376)*</i></b>	<b><i>82,269**</i></b>	<b><i>(87,645)</i></b>	<b><i>(107)</i></b>
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**16. COMMENT ON MATERIAL CHANGE IN PROFIT BEFORE TAXATION**

The Group's profit before taxation for the quarter under review was approximately 51% lower than the results registered in the immediate preceding quarter ended 30 September

2011. This was mainly due to the following:

1. change in sales and percentage of completion of the development project undertaken by the Group.
2. loss in fair value adjustment as highlighted in the note below.

The lower Group's profit before taxation is explained in the detailed financial analysis below:

	Fourth Quarter Ended 31.12.11 RM'000	Third Quarter Ended 30.09.11 RM'000	Variances Increase/ (Decrease) RM'000	%
Revenue	68,976	80,961	(11,985)	(15)
Cost of sales	31,755	28,728	3,027	11
Other income	1,395	1,390	5	0
Selling and marketing expenses	2,743	2,904	(161)	(6)
Administrative expenses (inclusive of loss in fair value adjustment of RM5.376m*)	12,802*	6,716**	6,086	91
Other expenses	6	8	(2)	(25)
Finance costs	2,974	2,859	115	4
Profit before taxation	20,091	41,136	(21,045)	(51)

**Note:**

***Fair value adjustment*** (5,376)\* 0\*\* (5,376)

**17. COMMENTARY ON PROSPECTS**

In line with the Group's aspirations to provide quality and affordable housing, the Group plans to continue developing residential and commercial properties in Johor Bahru, Segamat, Kluang and Muar in the state of Johor. These developments are anticipated to further strengthen the Group's foothold in landed properties' market in the state of Johor. Apart from this, with attractive recurring revenue from two Giant Hypermarkets (in Muar and Nusa Bestari, Johor Bahru) and KSL City Shopping Mall and encouraging sales of D'Esplanade luxury condominiums, the Group anticipates better growth and performance in terms of revenues and profit.

As at 31 December 2011, the Group has approximately 2,330 acres of land held for current and future development which are strategically located in the Districts of Johor Bahru, Batu Pahat, Kluang, Segamat, Muar, Mersing and Klang. Most of these properties are available for immediate development as they have been granted approval for subdivision. These will help the Group to sustain its medium to long term development and profitability.

Of the total acreages above, approximately 1,865 are strategically located in prime areas such as the Districts of Johor Bahru, Batu Pahat, Kluang, Segamat, Muar and Mersing. More than half of the land bank in Johor is located in the high growth Iskandar Development Region. More investment is expected to come from Singapore to the Iskandar Corridor. The effect is indeed spilling over to the property market in Johor. The Group is expected to benefit from the effect in view of its strong brand name in the Johor property market.

The remaining acreages of approximately 465 are located in Klang Valley. The Group plans to develop it into a mixed development projects and is expected to anticipates a gross development value (GDV) of RM2.5 billion with (5) main development phases and spans over a period of ten (10) years. The site is strategically located along Jalan Klang-Banting and is 15 minutes from the Klang town centre. This mixed development project is expected to entail thousands of units of residential and commercial properties. The project is anticipated to be a success and provides impetus for the Group's earnings growth.

In line with the Group's confidence in the high-end property market and the proven success of the Group in its maiden integrated commercial project, namely KSL City, the Group is gradually moving up the value chain by going into medium to high-end property development. Forging ahead, the Group has planned to further venture into another high-end property residential project within the Golden Triangle of Kuala Lumpur. This project will be named Madge 18 and is strategically located at Jalan Madge off Jalan U-Thant, Ampang Hilir, around the U-Thant Embassy area. Madge 18 will consist of 50 units, 10-storey high-end residences, with a potential gross development value of RM200 million and is expected to commence construction works in 2012, subject to the approvals of the relevant authorities.

Besides properties development activities, the Group is also looking at ways to increase its source of recurring income stream from its property assets. Currently, the Group has investment properties which are contributing approximately RM39 million of yearly rental income. Going forward, KSL City Resort, a luxury hotel resort consisting of two blocks in the Central Business District of Johor Bahru, which will be in operation in 2012, is expected to contribute substantially to the 2012 annual rental revenue of the Group.

Above all, the Group is committed to operational efficiency enhancement and good risk management and corporate governance practices. Strategic initiatives are in motion to improve pricing and marketing strategies as well as product development and innovation, reduce operational costs, improve cash flow and ensure better returns moving forward, across all operational divisions. Internal support system is continuously monitored and improved to provide the efficiency and effectiveness necessary to deliver consistent performance.

Barring any unforeseen circumstances, with diligent development planning and introduction of various business improvement initiatives coupled with the favourable industry outlook, the prospects of the Group remains bright.

**18. PROFIT FORECAST**

Not applicable

**19. INCOME TAX EXPENSE**

	Current Quarter Ended 31.12.2011 RM'000	Financial Period Ended 31.12.2011 RM'000
Malaysian income tax	6,313	26,268
Overprovision of Malaysia Income Tax in prior years	(351)	(351)
Deferred tax	(1,829)	(2,011)
Total Income Tax Expense	<u>4,133</u>	<u>23,906</u>

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follow:

	Current Quarter Ended 31.12.2011 RM'000	Financial Period Ended 31.12.2011 RM'000
Profit before taxation	20,091	111,820
Taxation at Malaysian statutory tax rate of 25%	5,023	27,955
Income not subject to tax	-	(73)
Utilisation of previously unrecognised tax losses and unabsorbed Capital allowance	-	(4,830)
Net of losses & expenses not deductible for tax purposes	(890)	854
Tax expense	<u>4,133</u>	<u>23,906</u>

**20. STATUS OF CORPORATE PROPOSAL ANNOUNCED**

There were no corporate proposals announced but not completed during the period under review except for the following:

**Proposed Acquisition**

On 12 November 2010, KSL Development Sdn Bhd, a wholly owned subsidiary of Harapan Terang Sdn Bhd, which in turn is a wholly owned subsidiary of the Company announced its proposal to acquire all and every one of the 3,239 realienated lots of the freehold land in Daerah Kluang, Johor for a total cash consideration of RM55,000,000.

**Status as at to-date**

As at to-date, certain conditions precedent stipulated in the Sale and Purchase Agreement are still pending fulfillment.

**21. BORROWINGS**

	As at 31.12.2011 RM'000	As at 31.12.2010 RM'000
<b><u>Short term borrowings (Secured)</u></b>		
Bank overdrafts	17,000	-
Bankers' acceptance	21,032	-
Term loan	13,691	3,712
Hire Purchase	458	295
	52,181	4,007
<b><u>Long term borrowings (Secured)</u></b>		
Term loan	190,742	163,730
Hire Purchase	86	258
	190,828	163,987
<b><u>Total Borrowings</u></b>		
Bank overdrafts	17,000	-
Bankers' acceptance	21,032	-
Term loan	204,433	167,442
Hire Purchase	544	552
	243,009	167,994

All of the above borrowings are denominated in Ringgit Malaysia.

**22. CHANGES IN MATERIAL LITIGATION**

There were no changes in material litigation, including the status of pending material litigation since the date of the last annual Statement of Financial Position ended 31 December 2010.

**23. DIVIDEND PAYABLE**

No interim ordinary dividend has been declared or approved for the financial period ended 31 December 2011.

**24. EARNINGS PER SHARE**

**(b) BASIC**

Basic earning per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period, excluding treasury shares held by the Group.

	Current Quarter Ended 31.12.11 RM'000	Financial Period Ended 31.12.11 RM'000
Profit attributable to ordinary equity holders of the parent	15,958	87,914
Issued ordinary shares as at beginning of the period	386,406	386,406
Weighted average number of ordinary shares in issue	386,406	386,406
	Sen	Sen
Basic earnings per share	<u>4.13</u>	<u>22.75</u>

**(b) DILUTED**

	Current Quarter Ended 31.12.11 RM'000	Financial Period Ended 31.12.11 RM'000
Profit attributable to ordinary equity holders of the parent	15,958	87,914

Issued ordinary shares as at beginning of the period	386,406	386,406
Adjustment for effect of dilution on Warrants issued	-	3,952
Adjusted weighted average number of ordinary shares in issue and issuable	386,406	390,358
	Sen	Sen
Diluted earnings per share	<u>4.13</u>	<u>22.52</u>

## 25. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after crediting/(charging) the following income/(expenses):

	3 Months Ended 31.12.2011 RM'000	Year-to-date Ended 31.12.2011 RM'000
(a) Interest income	95	319
(b) Other income including investment income	1,300	5,481
(c) Interest expense	(2,880)	(9,720)
(d) Depreciation and amortisation	(927)	(1,448)
(e) Provision for and write off of receivables	-	-
(f) Provision for and write off of inventories	-	-
(g) Gain or loss on disposal of quoted or unquoted investment properties	41	41
(h) Impairment of assets	-	-
(i) Foreign exchange gain/(loss)	-	-
(j) Gain/(loss) on derivatives	-	-
(k) Exceptional items/Loss in FV adjustment	(5,376)	(5,376)

## 26. REALISED AND UNREALISED RETAINED EARNINGS

On 25 March 2010, Bursa Malaysia Securities Berhad (“Bursa Malaysia”) issued a directive to all listed issuers pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits and accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses .

On 20 December 2010, Bursa Malaysia further issued guidance on the disclosure and the format required.

The breakdown of retained profits of the Group as at the reporting date, into realised and unrealised profits, pursuant to the directive, is as follows:-

	As at 31.12.2011 RM'000	As at 31.12.2010 RM'000
The retained earnings of the Group:-		
- Realised	640,357	581,819
- Unrealised	115,863	119,847
	<u>756,220</u>	<u>701,666</u>
Less: Consolidation adjustments	(62,262)	(62,262)
Total Group retained earnings as per Consolidated accounts	<u>693,958</u>	<u>639,404</u>

## 27. AUTHORITY FOR ISSUE

The interim financial statements were authorized for issue by the Board of Directors in accordance with a resolution of the Directors dated 29 February 2012.

On Behalf of the Board  
KSL Holdings Berhad

Khoo Cheng Hai @ Ku Cheng Hai  
Group Managing Director