

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2019

**PART A - EXPLANATORY NOTES PURSUANT TO FINANCIAL REPORTING STANDARD
(MFRS 134)**

1. Basis of Accounting and Accounting Policies

The interim financial statements have been prepared under the historical cost convention.

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

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2018. The explanatory notes attached to the 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 2018.

2. Changes in Accounting Policies

The significant accounting policies adopted are consistent with those followed in the preparation of the Group's audited financial statements for the financial year ended 31 December 2018, except for the adoption of the new and amendments to accounting standards below that are relevant and effective for accounting periods on or after 1 January 2019 as follows:-

MFRS 16	Lease
IC Interpretation 23	Uncertainty Over Income Tax Treatments
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Long-Term Interests in Associates and Joint Ventures
Annual Improvements to MFRS Standards 2016-2017 Cycle	

The adoption of the above new and amendments to accounting standards do not have any significant impact on the results of the Group.

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3. Declaration of Audit Qualification

The audited financial statements of the Group for the financial year ended 31 December 2018 was not subject to any audit qualification.

4. Seasonal or Cyclical Factors

The Group's business operations for the quarter ended 31 March 2019 were not materially affected by significant seasonal or cyclical fluctuations.

5. Unusual Items Due to their Nature, Size or Incidence

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period ended 31 March 2019.

6. Changes in Estimates

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

7. Segmental Information

	REVENUE		PROFIT BEFORE TAX	
	3 months ended 31.3.2019	3 months ended 31.3.2018	3 months ended 31.3.2019	3 months ended 31.3.2018
OPERATING SEGMENTS	RM'000	RM'000	RM'000	RM'000
Maintenance	93,094	95,795	8,922	10,165
Construction	59,063	32,521	3,865	(1,333)
Property Development	789	740	(2,964)	(2,620)
Engineering Services	11,618	16,831	1,199	1,924
Trading & Manufacturing	20,753	25,251	199	366
Education	11,371	12,900	(947)	(1,563)
Others & Eliminations	(30,405)	(26,568)	(2,521)	(2,593)
GROUP	166,283	157,470	7,753	4,346

8. Valuation of Property, Plant and Equipment

The Group did not carry out any valuation on property, plant and equipment during the current financial period.

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9. Subsequent Events

There was no event subsequent to the end of the current financial period from the date of the issue of this report that are expected to have a material impact on the Group.

10. Changes in Composition of the Group

There was no material changes in the composition of the Group during the financial period ended 31 March 2019.

11. Contingent Liabilities

In the normal course of business, there are contingent liabilities arising from legal recourse sought by the Group's customers or vendors and indemnities given to financial institutions on corporate guarantees. There were no material losses anticipated as a result of these transactions.

12. Capital Commitments

	<u>As at 31.3.2019</u>
	RM'000
Purchase of property, plant and equipment	1,830

13. Dividend

In respect of the financial year ending 31 December 2019, the Directors has declared a dividend of 0.6 sen per ordinary share amounting to approximately RM2.93 million, computed based on the issued and paid up capital as at 31 March 2019 (excluding treasury share) of 487,022,810 units.

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PART B - EXPLANATORY NOTES PURSUANT TO PART A OF APP'X 9B OF THE MAIN MARKET LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD
14. Analysis of Unaudited Performance of the Group by Operating Segment

For the financial period ended 31 March 2019, the Group recorded a total revenue of RM166.3 million, an increase of RM8.8 million or 6% higher than the total revenue reported in the preceding year corresponding period of RM157.5 million.

The increase in revenue and the reduction in operating expenses has enabled the Group to report a profit before tax of RM7.8 million.

Analysis of segmental operational results is as follows:

i) Maintenance

	Qtr ended 31.3.2019 RM'000	Qtr ended 31.3.2018 RM'000	Y-T-D ended 31.3.2019 RM'000	Y-T-D ended 31.3.2018 RM'000
Revenue	93,094	95,795	93,094	95,795
Profit Before Interest and Tax	8,711	10,165	8,711	10,165
Profit Before Tax ("PBT")	8,922	10,165	8,922	10,165

For the financial period ended 31 March 2019, Maintenance segment revenue decreased by 3%, due to less periodic works awarded during the financial period and the deconsolidation of the unit involved in the federal road maintenance in Sarawak, whereby it is now undertaken by its associate, DAL HCM Sdn. Bhd. PBT also decreased in line with the decrease in revenue and lower profit margin from periodic maintenance works.

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ii) Construction

	Qtr ended 31.3.2019 RM'000	Qtr ended 31.3.2018 RM'000	Y-T-D ended 31.3.2019 RM'000	Y-T-D ended 31.3.2018 RM'000
Revenue	59,063	32,521	59,063	32,521
Profit/(Loss) Before Interest and Tax	4,226	(1,213)	4,226	(1,213)
Profit/(Loss) Before Tax	3,865	(1,333)	3,865	(1,333)

For the financial period ended 31 March 2019, Construction segment revenue increased due to the contribution from the Perumahan Penjawat Awam (“PPA”) Phase 2. The increase revenue has resulted in this segment to report a profit before tax of RM3.9 million as compared a loss of RM1.3 million in the previous year corresponding period.

iii) Property Development

	Qtr ended 31.3.2019 RM'000	Qtr ended 31.3.2018 RM'000	Y-T-D ended 31.3.2019 RM'000	Y-T-D ended 31.3.2018 RM'000
Revenue	789	740	789	740
Loss Before Interest and Tax	(2,095)	(1,701)	(2,095)	(1,701)
Loss Before Tax	(2,964)	(2,620)	(2,964)	(2,620)

No revenue was recorded in the Property segment in the current quarter due to no property launching during the financial period. The revenue was derived from rental of its investment properties.

The loss in property development activities was due to overheads and interest expense.

The loss in property investment activities was due to low occupancy in student residence and interest expense. In respect of the mall, the depreciation and interest expense has resulted in the loss.

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iv) Engineering Services

	Qtr ended 31.3.2019 RM'000	Qtr ended 31.3.2018 RM'000	Y-T-D ended 31.3.2019 RM'000	Y-T-D ended 31.3.2018 RM'000
Revenue	11,618	16,831	11,618	16,831
Profit Before Interest and Tax	1,234	1,956	1,234	1,956
Profit Before Tax ("PBT")	1,199	1,924	1,199	1,924

Engineering Services segment revenue and PBT decreased by 31% and 38% respectively for the financial period ended 30 March 2019, mainly due to lower geotechnical and pavement evaluation works awarded as compared to the previous year corresponding quarter.

v) Trading and Manufacturing

	Qtr ended 31.3.2019 RM'000	Qtr ended 31.3.2018 RM'000	Y-T-D ended 31.3.2019 RM'000	Y-T-D ended 31.3.2018 RM'000
Revenue	20,753	25,251	20,753	25,251
Profit Before Interest and Tax	382	537	382	537
Profit Before Tax ("PBT")	199	366	199	366

For the financial period ended 31 March 2019, Trading and Manufacturing segment revenue decreased by 18%, mainly due to lesser periodic works undertaken by the Maintenance segment during the financial period. The PBT for the financial period ended 31 March 2019 decreased due to lower revenue and higher interest expense.

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vi) Education

	Qtr ended 31.3.2019 RM'000	Qtr ended 31.3.2018 RM'000	Y-T-D ended 31.3.2019 RM'000	Y-T-D ended 31.3.2018 RM'000
Revenue	11,371	12,900	11,371	12,900
Profit/(Loss) Before Interest and Tax	(618)	(1,177)	(618)	(1,177)
Profit/(Loss) Before Tax	(947)	(1,563)	(947)	(1,563)

The Education segment revenue decreased by RM1.529 million due to a drop in student population. The student population at the end of the financial period decreased to 2,512 as compared with preceding year corresponding quarter of 2,960. As a result, this segment incurred an operating loss of RM0.947 million. The loss suffered in this quarter is lower than the previous year corresponding quarter due to a cost optimisation exercise initiated in the 3rd quarter of 2018.

15. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter

Revenue for the quarter ended 31 March 2019 decreased by 38% as compared to preceding quarter. This is due to decrease in revenue from the following segment:

- 1) Maintenance segment**
Generally the 4th quarter periodic works awarded was higher.
- 2) Property Development segment**
Sale of 12 units of inventories in 4th quarter of 2018.
- 3) Trading and Manufacturing segment**
In line with the decreased in revenue in the Maintenance segment.

For the current quarter ended 31 March 2019, the Group reported profit before tax attributable to owners of the Company of RM1.2 million against a loss of RM44.2 million in the preceding quarter mainly due to one-off impairments and one-offs incurred in the preceding quarter.

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16. Commentary on Prospects

In the previous financial year ended 31 December 2018, the Group completed a comprehensive review of its construction portfolio assets and has taken the initiative to make one-off impairments and write-offs as well as initiated a right sizing exercise. For the period ended 31 March 2019, this efforts had yielded positive results with the return to profitability after four consecutive quarters of losses.

In 2019, Maintenance segment is expected to be the main revenue contributor to the Group. The Perumahan Penjawat Awam Phase 2 and drainage and irrigation projects will continue in 2019 as scheduled. The Group is also actively pursuing other opportunities to improve its Maintenance and Construction segments.

Barring unforeseen circumstances, the Group expects a turnaround with a return to profitability this year. The Group will also explore other business opportunities to enhance shareholders return.

17. Profit Forecast or Profit Guarantee

Not applicable.

18. Taxation

Taxation represents current year provision.

The effective tax rate for the current quarter was higher than the statutory tax rate principally due to losses of certain subsidiary companies where no group relief is granted and non-allowable expenses.

19. Profit after Taxation

	<u>Current</u> <u>Year To Date</u> <u>31.3.2019</u> RM'000	<u>Corresponding</u> <u>Year To Date</u> <u>31.3.2018</u> RM'000
Profit after taxation for the financial period is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	3,358	3,039
Depreciation of investment properties	445	455
Impairment losses on receivables	285	-
Interest expense	2,886	1,878
Property, plant and equipment written off	1	-
Gain on disposal of property, plant and equipment	-	(2)
Interest income	(446)	(638)
Writeback of impairment losses on receivables	(308)	(359)

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20. Corporate Proposals

There was no corporate proposal announced but not completed in the current quarter up to 28 May 2019, being the last practicable date from the date of the issue of this report other than the following:

On 1 March 2019, De Centrum Retail Sdn. Bhd. ("DCRSB"), an indirect wholly-owned subsidiary of the Company, entered into a conditional Joint Development Agreement ("JDA") with Penmaland Sdn. Bhd. ("Penmaland") to jointly develop three (3) contiguous parcels of freehold development land held under Title Nos. GRN 67477 (Lot No. 369), GRN 86444 (Lot No. 422) and GRN 71208 (Lot No. 665) in Mukim of Tampin Tengah, District of Tampin, Negeri Sembilan measuring approximately 137.08 acres ("Tampin Land").

Pursuant to the JDA, Penmaland shall grant DCRSB full and unfettered rights to carry out the development of the Tampin Land into mixed residential development, in exchange for a total cash consideration of RM48.6 million, payable in stages in accordance with the JDA ("Proposed Joint Development").

The Proposed Joint Development is deemed as a related party transaction and shareholders' approval is required.

21. Borrowings and Debt Securities

	<u>As at 31.3.2019</u>	<u>As at 31.3.2018</u>
	RM'000	RM'000
Secured:		
- Short term borrowings	84,143	69,159
- Long term borrowings	184,778	105,717
- Bank overdrafts	37,008	21,461
Total Secured Borrowings	<u>305,929</u>	<u>196,337</u>
Unsecured:		
- Short term borrowings	15,744	19,504
Total Unsecured Borrowings	<u>15,744</u>	<u>19,504</u>
Total borrowings	<u><u>321,673</u></u>	<u><u>215,841</u></u>

The total borrowings increased from RM216 million as at 31 March 2018 to RM322 million as at 31 March 2019 due to drawdown of RM122.7 million to finance the Perumahan Penjawat Awam Phase 2. As a result, the net gearing ratio increased to 0.68 times as at 31 March 2019 from 0.36 times as at 31 March 2018.

There is no borrowing denominated in foreign currency. The effective interest rate range from 2.56% to 8.07% for the conventional borrowings. The effective profit rate for the Islamic borrowings range from 3.59% to 8.51%.

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22. Trade Receivables

The trade receivables ageing, net of impairment and expected credit loss can be analysed as follows:

	<u>As at 31.3.2019</u>	<u>As at 31.3.2018</u>
	RM'000	RM'000
Less than 6 months	168,753	205,833
6 to 12 months	18,354	27,244
1 to 2 years	28,331	44,333
More than 2 years	26,000	22,869
	<u>241,438</u>	<u>300,279</u>

Normal credit terms range from 21 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

23. Share Capital

There is no movement in share capital during the financial period.

24. Treasury Shares

	Number of Shares '000	Average Price RM	RM'000
As at 1 January 2019	2,263		1,130
Purchase of 6,106,100 units	6,107	0.24	1,473
As at 31 March 2019	<u>8,370</u>		<u>2,603</u>

25. Cash and Bank Balances

Included in cash and bank balances of the Group is a sum of RM5.05 million (2018: RM6.37 million) held under a Housing Development Account pursuant to Section 7A of the Housing Development (Control & Licensing) Act 1966.

26. Off Balance Sheet Financial Instruments

The Group does not have any off balance sheet financial instruments as at the date of this announcement.

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27. Material Litigations

Other than stated below, there were no changes in material litigation since the last annual balance sheet date:

- (i) **High Court of Malaya at Kuala Lumpur (“KL High Court”) Suit No: 22NCC-362-09/2014 between Protasco Berhad (“Company”) as plaintiff against PT Anglo Slavic Utama (“PT ASU”) as the 1st defendant, Tey Por Yee as the 2nd defendant and Ooi Kok Aun as the 3rd defendant**

On 28 December 2012, our Company entered into a conditional Sale and Purchase Agreement (“**Conditional SPA**”) with PT ASU to acquire 95,000,000 ordinary shares of IDR1,000 each in PT Anglo Slavic Indonesia (“**PT ASI**”), representing 76% equity interest in PT ASI for a proposed purchase consideration of USD55,000,000.

PT ASI holds 95% equity interest in PT Firman Andalan Sakti (“**PT FAS**”) which in turn holds 70% equity interest in PT Hase Bumou Aceh (“**PT Haseba**”) (“**PT ASI Group**”). PT ASU as vendor represented in the Conditional SPA that PT Haseba had a 10 year production management partnership agreement (“**PMP Agreement**”) with PT Pertamina (PERSERO) (“**Pertamina**”) to develop and to produce oil and gas in the Kuala Simpang Timur Field from 14 December 2004.

On 29 January 2014, our Company entered into an Amended and Restated Sale and Purchase Agreement (“**Restated SPA**”) with PT ASU to amend vary and restate, in its entirety, the Conditional SPA. With the execution of the Restated SPA, our Company agreed to acquire 78,750,000 ordinary shares of IDR1,000 each in PT ASI representing 63% equity interest in PT ASI from PT ASU for a total purchase consideration of USD22,000,000 (RM68,393,170) (“**Purchase Consideration**”). Parties thereto agreed that the Purchase Consideration was to be settled by way of setting off the deposit of USD16,340,563 (equivalent to RM50,000,000 based on the agreed exchange rate of USD1:RM3.05987 as at 28 December 2012) initially paid by our Company to PT ASU pursuant to the Conditional SPA and the balance thereof in cash.

The Restated SPA was subject to, among others, the following conditions subsequent to the completion of the Restated SPA which were to be fulfilled within six months from the date of the Restated SPA (“**Conditional Period**”):

- (i) Consent of Pertamina for the sale and purchase of the shares pursuant to the Restated SPA;
- (ii) Extension of the PMP Agreement for a further 10 year period; and
- (iii) Issuance of Surat Keterangan Terdaftar Minyak & Gas license by the Ministry of Energy and Mineral Resources’ General of Oil and Gas Indonesia to PT Haseba.

Upon execution of the Restated SPA, our Company paid the balance Purchase Consideration amounting to USD5,659,437 (RM18,393,170) to PT ASU. In February 2014, pursuant on the terms of the Restated SPA, our Company made a further advance of USD5,000,000 (RM16,250,000) to PT ASI for working capital purposes (“**Advance**”). The total amounts paid to PT ASU and PT ASI collectively amounted to USD27,000,000 being the Purchase Consideration and the Advance.

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27. Material Litigations (Cont'd)

- (i) **High Court of Malaya at Kuala Lumpur (“KL High Court”) Suit No: 22NCC-362-09/2014 between Protasco Berhad (“Company”) as plaintiff against PT Anglo Slavic Utama (“PT ASU”) as the 1st defendant, Tey Por Yee as the 2nd defendant and Ooi Kok Aun as the 3rd defendant (cont'd)**

On 5 August 2014, our Company announced that the conditions subsequent pursuant to the completion of Restated SPA had not been fulfilled by PT ASU within the Conditional Period and accordingly, the Restated SPA lapsed on 28 July 2014. Our Company terminated the Restated SPA on 4 August 2014 and 14 August 2014.

On 22 September 2014, our Company filed a legal suit against PT ASU and our two former directors, namely the 2nd and the 3rd defendant for, among others, the refund of the Purchase Consideration and Advance.

The total amount claimed against PT ASU and the two former directors (“**2nd and 3rd Defendants**”) are as follows:

Against PT ASU

- i. A payment of USD22,000,000;
- ii. Pre-judgement interest on USD22,000,000 pursuant to Section 11 of the Civil Law Act 1956 from the date of the suit until the date of judgement at an interest rate of 5% per annum;
- iii. Post-judgement interest on USD22,000,000 pursuant to Order 42 Rule 12 of the Rules of Court 2012 from the date of judgement until full and final settlement thereof at an interest rate of 5% per annum; and
- iv. Damages for the breach of the Restated SPA.

Against the 2nd and 3rd Defendants

- i. A payment of USD27,000,000 (including the Advance);
- ii. Pre-judgement interest on USD27,000,000 pursuant to Section 11 of the Civil Law Act 1956 from the date of the suit until the date of judgement at an interest rate of 5% per annum;
- iii. Post-judgement interest on USD27,000,000 pursuant to Order 42 Rule 12 of the Rules of Court 2012 from the date of judgement until full and final settlement thereof at an interest rate of 5% per annum;
- iv. Damages for fraud and conspiracy; and
- v. General damages, aggravated and exemplary.

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27. Material Litigations (Cont'd)

- (i) **High Court of Malaya at Kuala Lumpur (“KL High Court”) Suit No: 22NCC-362-09/2014 between Protasco Berhad (“Company”) as plaintiff against PT Anglo Slavic Utama (“PT ASU”) as the 1st defendant, Tey Por Yee as the 2nd defendant and Ooi Kok Aun as the 3rd defendant (cont'd)**

The status of this suit is as follows:

PT ASU’s application to stay this legal proceeding pending arbitration was dismissed by the KL High Court on 11 August 2015. Thereafter, PT ASU filed an appeal to the Court of Appeal Malaysia (Appeal Jurisdiction) at Wilayah Persekutuan Putrajaya (“Court of Appeal”) which was allowed on 25 February 2016. Pursuant to the decision of the Court of Appeal, the action against PT ASU is now stayed pending the referral of the matter to arbitration in accordance with the rules of the Kuala Lumpur Regional Centre of Arbitration.

Following the decision of the Court of Appeal on 25 February 2016, the 2nd and 3rd Defendants have filed their stay application pending the disposal of the arbitration between PT ASU and our Company. This application has been granted on 20 December 2016. The Company had then filed an appeal against the said High Court decision to the Court of Appeal. The Court of Appeal had on 29 January 2018, allowed the Company’s appeal and remitted the case back to the High Court against the 2nd and 3rd Defendants. The 2nd and 3rd Defendants had on 28 February 2018 respectively filed an application by way of motion for leave to appeal to the Federal Court (“2nd and 3rd Defendants’ Motion”). The 2nd and 3rd Defendants’ Motion were dismissed on 25 March 2019. Both the 2nd and 3rd Defendants filed an application to the Court of Appeal for stay of the High Court proceedings pending the hearing of the said 2nd and 3rd Defendants’ Motion. The stay application has been dismissed by the Court of Appeal on 28 January 2019.

The KL High Court has fixed 18 November 2019 to 29 November 2019 for trial.

Notwithstanding the above litigation, the purchase consideration paid and advance made amounting to RM68,393,170 and RM16,250,000 respectively have been fully impaired in the financial year ended 31 December 2014.

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27. Material Litigations (Cont'd)

(ii) High Court of Malaya at Shah Alam ("SA High Court") Suit No. 22NCVC-561-11/2014 between Protasco Trading Sdn Bhd ("PTSB") as plaintiff against PT Goldchild Integritas Abadi ("Goldchild") and Ooi Kock Aun ("OKA") as defendants

PTSB, a wholly owned subsidiary of our Company, had entered into an agreement dated 4 February 2013 ("**Agreement**") to undertake coal trades with Goldchild.

Pursuant to the terms of the Agreement and to facilitate coal purchases, a deposit ("**Deposit**") of USD5,161,290 (approximately RM16,000,000) was paid by PTSB to Goldchild on 4 February 2013. The Deposit is to be deducted in stages against future coal trades.

On 19 July 2013, PTSB entered into a Coal Stockpile Joint Venture Agreement with Goldchild to provide a sum of not exceeding USD900,000 (approximately RM2,904,000) for the purpose of the joint venture to purchase coal in Indonesia and resell the coal to potential buyers, subject to such terms and conditions as stipulated in the Coal Stockpile Joint Venture Agreement.

On 21 November 2014, PTSB filed a legal suit against Goldchild and one of the former directors of our Company, OKA, when our Company uncovered that OKA has an undisclosed interest in Goldchild.

The status of this suit is as follows:-

OKA filed an application to strike out the legal suit against him and the application was dismissed on 19 October 2015. Thereafter, OKA filed an appeal against the SA High Court decision to the Court of Appeal. OKA's appeal has been struck off with liberty to file afresh and with no order as to costs by the Court of Appeal on 17 May 2017.

Goldchild's application to stay this legal proceeding pending arbitration was allowed by the SA High Court on 19 October 2015. Thereafter, PTSB filed an appeal against the SA High Court decision to the Court of Appeal. This appeal was withdrawn by PTSB on 24 August 2016.

Since the legal suit against Goldchild has been stayed pending arbitration, OKA filed an application for stay pending arbitration between PTSB and Goldchild which was allowed on 13 January 2016. PTSB then filed an appeal against the SA High Court decision to the Court of Appeal. This application was dismissed by the Court of Appeal on 24 August 2016. PTSB had on 23 September 2016 filed an application for leave via notice of motion seeking leave to appeal to the Federal Court of Malaysia at Wilayah Persekutuan Putrajaya ("Federal Court"). The Motion has been dismissed by the Federal Court on 11 January 2017.

Pursuant to the decision of the Federal Court, the action against PT Goldchild and OKA in the SA High Court is now stayed pending the arbitration proceedings between PT Goldchild and PTSB in Jakarta, Indonesia in accordance with the rules of Badan Arbitrase Nasional Indonesia ("BANI").

Notwithstanding the above litigation, the coal trade deposits made to Goldchild amounted to RM18,904,000 had been fully impaired in the financial year ended 31 December 2014.

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27. Material Litigations (Cont'd)

(iii) Notice of Adjudication pursuant to Section 8 of the Construction Industry Payment and Adjudication Act 2012 served on HCM Engineering Sdn Bhd (“HCM”)

On 6 July 2018, HCM was served with Adjudication Decision dated 4 July 2018 whereby HCM shall pay Kuasatek Sdn Bhd (“Kuasatek”) the sum of RM2,959,440.44 within 14 days from the date of the Adjudication Decision.

HCM had on 8 August 2018 filed the following applications in the High Court of Malaya at Kuala Lumpur (“KL High Court”):-

- (a) An application by way of Originating Summons to set aside the Adjudication Decision pursuant to Section 15(b) and Section 15(d) of the Construction Industry Payment Adjudication Act 2012 (“the Setting Aside Application”). The Setting Aside Application was dismissed;
- (b) An application by way of Originating Summons to stay the Adjudication Decision pursuant to Section 16 of the Construction Industry Payment Adjudication Act 2012 pending arbitration (“the Stay Application”). The Stay Application was dismissed.

In addition, HCM has served a Notice to Request for Arbitration dated 6 August 2018 to Kuasatek to refer the claim to arbitration pursuant to Article 3, Part II of the Asian International Arbitration Rules 2018.

Meanwhile, Kuasatek had, on 9 August 2018, served on HCM, an application by way of Originating Summons for an order that the Adjudication Decision dated 4 July 2018 be enforced as a judgement against HCM in the KL High Court pursuant to Section 28(1) of the Construction Industry Payment Adjudication Act 2012 (“the Enforcement Application”). The Enforcement Application was allowed. HCM has on 2 November 2018 filed an application for stay of the enforcement allowed by the High Court. At the Hearing on 22 November 2018, the parties have entered into Consent Order based on the following terms:-

- (i) HCM will pay the Adjudicated Sum amounting to RM3,116,428 by 27 November 2018;
- (ii) Kuasatek undertakes not to commence winding up proceedings and any other execution proceedings;
- (iii) Kuasatek undertakes to refund any monies paid under (i), in excess of the sum which the HCM is liable to pay pursuant to the outcome of the current appeal to Court of Appeal by HCM, any arbitration or litigation involving current dispute between the parties.

On 29 October 2018, HCM filed an appeal to the Court of Appeal against the decision of the High Court in dismissing the Setting Aside Application and allowing the Enforcement Application. The hearing date is fixed on 17 June 2019.

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27. Material Litigations (Cont'd)

(iii) Notice of Adjudication pursuant to Section 8 of the Construction Industry Payment and Adjudication Act 2012 served on HCM Engineering Sdn Bhd (“HCM”) (cont'd)

Meanwhile, HCM had on 8 March 2019 filed a legal suit at the Kuala Lumpur High Court against Kuasatek (“Legal Proceeding”).

HCM's claim against Kuasatek is premised on breach of contract by Kuasatek pursuant to a Letter of Appointment for Mechanical and Electrical Works Packages (Contract No: HCM/P48-AFC/LA/C/16/V1(07) dated 15 March 2016, a work package under a project previously awarded to HCM known as “The Design And Built Contract For The Proposed Additional Of A 4 Storey Office Building With Basement Car Parking To The Existing Facilities On Lot No. 38627, Bukit Jalil, Mukim Petaling, Daerah Kuala Lumpur, Malaysia For Asian Football Confederation.” Kuasatek was the mechanical and electrical works sub-contractor for HCM.

The Legal Proceeding is to finally determine the liability of Kuasatek under the contract and for the refund of the Adjudicated Sum paid to Kuasatek pursuant to the Adjudication Decision dated 4 July.2018.

HCM's claims against Kuasatek are as follows:-

- (a) A declaration that the contract dated 13 May 2016 between HCM and Kuasatek is for the sum of RM9,500,000;
- (b) A declaration that Kuasatek has breached the contract;
- (c) A declaration that HCM is allowed to set off the sum of RM288,205 as the costs to rectify the defectives works and/or work done on behalf;
- (d) A declaration that HCM is allowed to set off the sum of RM930,000 as Liquidated Ascertained Damages;
- (e) A declaration that HCM is allowed to withhold the sum of RM475,000 as the performance bond until the issuance of the Certificate of Making Good Defects by Asian Football Confederation;
- (f) Kuasatek shall pay the sum of RM12,889 to HCM;
- (g) Kuasatek shall refund the sum of RM2,968,457 to HCM forthwith being the excess payment paid by HCM to Kuasatek for work done;
- (h) Kuasatek shall refund the sum of RM106,572 to HCM forthwith being the sum paid by HCM to Kuasatek for legal costs, adjudication costs and expenses;

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27. Material Litigations (Cont'd)

(iii) Notice of Adjudication pursuant to Section 8 of the Construction Industry Payment and Adjudication Act 2012 served on HCM Engineering Sdn Bhd (“HCM”) (cont'd)

HCM's claims against Kuasatek are as follows (Cont'd):-

- (i) General damages to be assessed by this Honourable Court;
- (j) Interest at the rate of 5% p.a. on the amount in (f), (g), (h) and (i) above from the date of Judgment until date of full payment; and
- (k) Costs.

On 16 April 2019, Kuasatek filed its defence and counterclaim against HCM for a sum of RM733,548.

At the Case Management held on 9 May 2019, the Court has directed the Solicitors to seek the parties' instruction whether the parties are amenable to refer the matter for mediation at the Kuala Lumpur Court Mediation Centre. At the Case Management held on 24 May 2019, the Solicitors had informed the Court that the parties are amenable to refer the matter for mediation at the Kuala Lumpur Court Mediation Centre. In view of the said agreement, the Court has fixed the matter for Case Management on 3 June 2019 for the Court to fix the date(s) for the said mediation.

(iv) Notice of Adjudication pursuant to Section 8 of the Construction Industry Payment and Adjudication Act 2012 (“CIPAA”) served by HCM Engineering Sdn Bhd (“HCM”) on Southkey City Sdn Bhd (“SCSB”)

HCM, a wholly owned subsidiary of the Company had on 19 February 2019, filed a Notice of Adjudication under Section 8 of CIPAA under CIPAA 2012 with the Asian International Arbitration Centre (“AIAC”) Kuala Lumpur to commence adjudication proceedings against Southkey City Sdn Bhd (“SCSB”), the Developer of a property development project known as Southkey City, situated at Johor Bahru, Johor Darul Takzim.

The adjudication proceedings were commenced to seek resolution on contractual disputes covering HCM's claims from SCSB for the principal amount of RM10,423,964.55 (inclusive of GST) for construction works done and due to non-payment by SCSB and HCM is also claiming for late payment interest and cost, the amount of which will be determined at a later stage.

The claims were in relation to a Letter of Acceptance of Offer dated 3 December 2015, wherein SCSB engaged HCM as the subcontractor for the Construction, Completion, Testing and Handover of Road and Drainage Phase 1 (Package 1A) in Southkey City for a contract sum of RM7,041,900.00.

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27. Material Litigations (Cont'd)

(iv) Notice of Adjudication pursuant to Section 8 of the Construction Industry Payment and Adjudication Act 2012 ("CIPAA") served by HCM Engineering Sdn Bhd ("HCM") on Southkey City Sdn Bhd ("SCSB") (cont'd)

Status update is as follows:

- (i) HCM had on 28 January 2019, served a Payment Claim under Section 5 of the Construction Industry Payment Adjudication Act 2012 (CIPAA) on SCSB.
- (ii) SCSB had on 12 February 2019 disputed HCM's Payment Claim and in turn, gave notice of set-off and cross claim.
- (iii) HCM had on 18 February 2019, served a Notice of Adjudication on SCSB.
- (iv) HCM had on 19 February 2019, filed a Notice of Adjudication with the Asian International Arbitration Centre (AIAC) Kuala Lumpur.
- (v) HCM had filed its Adjudication Claim on 2 April 2019.
- (vi) SCSB had filed its Adjudication Response on 12 April 2019.
- (vii) HCM had filed its Adjudication Reply on 18 April 2019.
- (viii) SCSB had filed its Further Response on 6 May 2019.

(v) Notice of Adjudication pursuant to Section 8 of the Construction Industry Payment and Adjudication Act 2012 ("CIPAA") served by HCM Engineering Sdn Bhd ("HCM") on Southkey City Sdn Bhd ("SCSB")

HCM, a wholly owned subsidiary of the Company had filed a Notice of Adjudication under Section 8 of the Construction Industry Payment Adjudication Act 2012 (CIPAA) with the Asian International Arbitration Centre ("AIAC") Kuala Lumpur to commence adjudication proceedings against Southkey City Sdn Bhd ("SCSB"), the developer of a property development project known as Southkey City, situated at Johor Bahru, Johor Darul Takzim.

The adjudication proceedings were commenced to seek resolution on contractual disputes covering HCM's claims from SCSB for the principal amount of RM3,475,129.42 for construction works done and due to non-payment by SCSB. HCM is also claiming for late payment interest and cost, the amount of which will be determined at a later stage.

The claims were in relation to a Letter of Acceptance of Offer dated 3rd December 2015, wherein SCSB engaged HCM as the Main Contractor for the Construction, Completion, Testing, Commissioning and Handover of Water Reticulation Works Phase 1 (Package 1A) for a project known as "Cadangan Membina Dan Menyiapkan Kerja-Kerja Infrastruktur Bagi Pembangunan Bercampur Di Atas Lot PTD 14853 (Lot Lama), Mukim Plentong, Johor Bahru, Johor Darul Takzim Untuk Tetuan Southkey City Sdn Bhd" for a contract sum of RM3,221,998.90.

Status update is as follows:

- (i) HCM had on 19 February 2019, served a Payment Claim under Section 5 of the Construction Industry Payment Adjudication Act 2012 (CIPAA) on SCSB.
- (ii) SCSB had on 5 March 2019 disputed HCM's Payment Claim.
- (iii) HCM had on 7 March 2019, served a Notice of Adjudication on SCSB.
- (iv) HCM had on 8 March 2019, filed a Notice of Adjudication with the Asian International Arbitration Centre (AIAC) Kuala Lumpur.
- (v) HCM had filed its Adjudication Claim on 26 April 2019.
- (vi) SCSB had filed its Adjudication Response on 10 May 2019.

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28. Earnings Per Share

	<u>3 months</u> <u>ended</u> 31.3.2019	<u>3 months</u> <u>ended</u> 31.3.2018
Net profit/(loss) for the financial quarter (RM'000)	1,229	(2,141)
Weighted average number of ordinary shares in issue ('000)	490,825	494,909
Basic earnings/(loss) per share (sen)	<u>0.25</u>	<u>(0.43)</u>

The Company has not issued any dilutive potential ordinary shares and hence, the diluted loss per share is equal to the basic loss per share.

29. Authorisation for Issue

The interim financial statements were authorised for issue by the Board of Directors in accordance with the resolution of the directors on 28 May 2019.