

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 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 30 June 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 30 June 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	6 months ended	3 months ended	6 months ended
	30.6.2019	30.6.2019	30.6.2019	30.6.2019
OPERATING SEGMENTS	RM'000	RM'000	RM'000	RM'000
Maintenance	90,134	183,228	6,368	15,290
Construction	86,847	145,910	7,729	11,594
Property Development	2,643	3,432	(994)	(3,958)
Engineering Services	13,822	25,440	(938)	260
Trading & Manufacturing	35,155	55,908	290	489
Education	10,389	21,760	(1,419)	(2,366)
Others & Eliminations	(50,369)	(80,774)	(1,119)	(3,639)
GROUP	188,621	354,904	9,917	17,670

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 30 June 2019.

11. Contingent Liabilities

There were no material contingent liabilities of the Group as at the end of the current review.

12. Capital Commitments

	<u>As at 30.6.2019</u> RM'000
Purchase of property, plant and equipment	<u>1,355</u>

13. Dividend

In respect of the financial year ending 31 December 2019, the Board of Directors has declared a dividend of 0.6 sen per ordinary share amounting to RM2,921,604 computed based on the issued and paid-up capital as at 30 June 2019 (excluding treasury share) of 486,932,310 ordinary shares. The dividend was paid on 10 July 2019.

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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

Operating Segments	Quarter Ended		Variance	Year-to-Date Ended		Variance
	30.6.2019	30.6.2018		30.6.2019	30.6.2018	
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue						
Maintenance	90,134	125,462	-28%	183,228	221,257	-17%
Construction	86,847	62,464	39%	145,910	94,985	54%
Property Development	2,643	754	251%	3,432	1,494	130%
Engineering Services	13,822	12,578	10%	25,440	29,409	-13%
Trading & Manufacturing	35,155	53,045	-34%	55,908	78,296	-29%
Education	10,389	11,617	-11%	21,760	24,517	-11%
Others & Eliminations	(50,369)	(23,737)	-112%	(80,774)	(50,305)	-61%
GROUP	188,621	242,183		354,904	399,653	
Profit/(Loss) Before Interest and Tax						
Maintenance	6,290	7,681	-18%	15,001	17,846	-16%
Construction	7,557	(174)	4443%	11,783	(1,388)	949%
Property Development	(248)	(1,190)	79%	(2,343)	(2,891)	19%
Engineering Services	(887)	214	-514%	347	2,170	-84%
Trading & Manufacturing	537	1,332	-60%	919	1,869	-51%
Education	(1,092)	(1,704)	36%	(1,710)	(2,881)	41%
Others & Eliminations	(464)	84	-652%	(2,287)	(2,597)	12%
GROUP	11,693	6,243		21,710	12,128	
Profit/(Loss) Before Taxation						
Maintenance	6,368	7,671	-17%	15,290	17,836	-14%
Construction	7,729	(185)	4278%	11,594	(1,519)	863%
Property Development	(994)	(2,156)	54%	(3,958)	(4,776)	17%
Engineering Services	(938)	176	-633%	260	2,100	-88%
Trading & Manufacturing	290	1,028	-72%	489	1,394	-65%
Education	(1,419)	(2,030)	30%	(2,366)	(3,593)	34%
Others & Eliminations	(1,119)	(1,112)	-1%	(3,639)	(3,704)	2%
GROUP	9,917	3,392		17,670	7,738	

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a) Current Quarter

Group

Group revenue recorded at RM188.6 million as compared to RM242.2 million in the preceding year corresponding quarter showed a decrease of RM53.6 million. This was mainly due to lesser periodic maintenance revenue undertaken by Maintenance segment which consequently resulted in a decrease in Trading and Manufacturing segment revenue.

However, the reduction in operating expenses has enabled the Group to report a profit before tax of RM9.9 million, an increase of RM6.5 million as compared to the preceding year corresponding quarter of RM3.4 million.

1) Maintenance

Maintenance segment revenue decreased by 28% from RM125.5 million in the preceding year corresponding quarter to RM90.1 million in the current quarter. This was due to lesser periodic work awarded as compared to preceding year corresponding quarter. In line with the decrease in revenue, the profit before tax decreased from RM7.7 million in the preceding year corresponding quarter to RM6.4 million in the current quarter.

2) Construction

Construction segment revenue increased by 39%, mainly due to the contribution from the Perumahan Penjawat Awam (“PPA”) Phase 2 and Drainage and Irrigation (“DID”) works. Accordingly, profit before tax stood at RM7.7 million as compared to a loss before tax of RM0.2 million in the previous year corresponding quarter. There was also a reduction in operating expenses.

3) Property Development

Property Development segment achieved a higher revenue of RM2.6 million against preceding year corresponding quarter of RM0.8 million, representing an increase of 250%. This was due to the sale of 3 units of inventories from Block C and D of Phase 2B. The increase in revenue resulted in a lower loss before tax of RM1 million in the current quarter as compared to RM2.2 million in the preceding year corresponding quarter.

4) Engineering Services

Engineering Services segment revenue increased by 10% from RM12.6 million in the preceding year corresponding quarter to RM13.8 million in the current quarter. The increase was mainly attributed to higher pavement evaluation works awarded as compared to the preceding year corresponding quarter. This segment incurred a loss before tax of RM0.9 million in the current quarter as compared to profit before tax of RM0.2 million in the preceding year corresponding quarter, mainly due to RM0.9 million of retrenchment expenses incurred in the current quarter.

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a) **Current Quarter (Cont'd)**

5) **Trading and Manufacturing**

Trading and Manufacturing segment revenue decreased by RM17.8 million from RM53 million in the preceding year corresponding quarter to RM35.2 million in the current quarter. This was due to lesser periodic works undertaken by Maintenance segment. Consequently, profit before tax during the current quarter fell to RM0.3 million from RM1 million in the preceding year corresponding quarter.

6) **Education**

Education segment revenue decreased by 11% from RM11.6 million in the preceding year corresponding quarter to RM10.4 million in the current quarter, mainly due to a drop in student population. However, the loss before tax improved from RM2 million in the preceding year corresponding quarter to a loss before tax of RM1.4 million in the current quarter, mainly due to decrease in advertisement expenses of RM0.5 million from RM0.7 million in the preceding year corresponding quarter to RM0.2 million in the current quarter.

b) **Year-to-Date**

Group

For the financial period ended 30 June 2019, the Group recorded a revenue of RM354.9 million, a decrease of RM44.8 million as compared to RM399.7 million reported in the preceding year corresponding period.

Despite a decrease in revenue, the Group profit before tax improved from RM7.7 million in the preceding year corresponding period to RM17.7 million in the current period. This was mainly due to the right sizing exercise embarked from September 2018, a major factor in the RM18.5 million reduction in operating expenses from RM72.3 million in the preceding year corresponding period to RM53.8 million in the current period.

1) **Maintenance**

For the financial period ended 30 June 2019, Maintenance segment recorded revenue of RM183.2 million. Profit before tax was lower at RM15.3 million as compared to RM17.8 million in the preceding year corresponding period. This was due to lesser periodic works awarded during the current financial period.

2) **Construction**

For the financial period ended 30 June 2019, Construction segment achieved a substantially higher revenue of RM145.9 million as compared to RM95 million recorded in the preceding year corresponding period. Profit before tax during the period was higher at RM11.6 million as compared to a loss before tax of RM1.5 million in the preceding year corresponding period. The improvement in both the revenue and profit is mainly due to contribution from the PPA Phase 2 and DID works.

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b) Year-to-Date (Cont'd)

3) Property Development

For the financial period ended 30 June 2019, the Property Development segment recorded revenue of RM3.4 million as compared to RM1.5 million in the preceding year corresponding period, principally derived from the sale of 3 units of inventories amounted to RM1.7 million from Block C and D of Phase 2B and rental of its investment properties.

The loss before tax in property development activities of RM1.4 million was due to overheads of RM1.4 million and interest expense of RM0.5 million.

The loss before tax in property investment activities of RM2.5 million was due to low occupancy in student residence and interest expense of RM1 million.

4) Engineering Services

Engineering Services segment revenue decreased by 13% to RM25.4 million for the financial period ended 30 June 2019, mainly due to lower geotechnical works awarded during the current period as compared to the preceding year corresponding period of RM29.4 million. Profit before tax decreased from RM2.1 million in the preceding year corresponding period to RM0.3 million in the current period, mainly due to RM0.9 million of retrenchment expenses incurred during the financial period.

5) Trading and Manufacturing segment

For the financial period ended 30 June 2019, Trading and Manufacturing segment revenue decreased by 29% from RM78.3 million to RM55.9 million, mainly due to lesser periodic works undertaken by the Maintenance segment during the financial period, whereby this segment is the main supplier to the sub-contractors. Consequently, profit before tax during the financial period was RM0.5 million as compared to RM1.4 million in the preceding year corresponding period,

6) Education segment

Education segment revenue decreased by 11% from RM24.5 million in the preceding year corresponding period to RM21.8 million in the current period due to a drop in student population. The student population at the end of the financial period decreased to 2,505 as compared with preceding year corresponding period of 2,920. However, the loss before tax recorded at RM2.4 million during the financial period was an improvement from the loss before tax of RM3.6 million in the preceding year corresponding period. This was mainly due to the decrease of RM1 million in advertising expenses and RM0.2 million in promotion and marketing expenses.

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

The Group recorded higher revenue and profit before tax of RM188.6 million and RM9.9 million respectively for the current quarter ended 30 June 2019 as compared to the immediate preceding quarter of RM166.3 million and RM7.7 million. This was mainly due to contribution from PPA Phase 2 and DID works under Construction segment.

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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 30 June 2019, these efforts had continued to yield positive results during the period.

In 2019, Maintenance segment is expected to be the main revenue contributor to the Group while for the Construction segment, the PPA Phase 2 project and DID works will continue as scheduled. The Group is also actively pursuing other opportunities to improve its Maintenance and Construction segments and other business opportunities to enhance shareholders return.

Barring unforeseen circumstances, the Group expects a turnaround with a return to profitability in the current financial year.

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>30.6.2019</u> RM'000	<u>Corresponding</u> <u>Year To Date</u> <u>30.6.2018</u> RM'000
Profit after taxation for the financial period is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	6,678	7,118
Depreciation of investment properties	912	910
Impairment losses on receivables	631	785
Interest expense	5,411	4,952
(Gain)/Loss on disposal of property, plant and equipment	(140)	47
Interest income	(807)	(1,136)
Writeback of impairment losses on receivables	(310)	-

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20. Corporate Proposals

There was no corporate proposal announced but not completed in the current quarter up to 28 August 2019, being the last practicable date from the date of the issue of this report.

21. Borrowings and Debt Securities

	<u>As at 30.6.2019</u>	<u>As at 30.6.2018</u>
	RM'000	RM'000
Secured:		
- Short term borrowings	89,235	72,122
- Long term borrowings	215,585	106,419
- Bank overdrafts	28,363	32,725
Total Secured Borrowings	<u>333,183</u>	<u>211,266</u>
Unsecured:		
- Short term borrowings	15,448	17,532
Total Unsecured Borrowings	<u>15,448</u>	<u>17,532</u>
Total borrowings	<u>348,631</u>	<u>228,798</u>

The total borrowings increased from RM229 million as at 30 June 2018 to RM349 million as at 30 June 2019 due to drawdown of RM156.9 million to finance the construction of PPA Phase 2 project. As a result, the net gearing ratio increased to 0.80 times as at 30 June 2019 from 0.40 times as at 30 June 2018.

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

22. Trade Receivables

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

	<u>As at 30.6.2019</u>	<u>As at 30.6.2018</u>
	RM'000	RM'000
Less than 6 months	189,616	218,643
6 to 12 months	44,623	47,035
1 to 2 years	31,021	47,865
More than 2 years	20,296	8,596
	<u>285,556</u>	<u>322,139</u>

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

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23. 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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23. 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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23. 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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23. 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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23. 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 29 August 2019.

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23. 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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23. 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.

The status of the Legal Proceeding is as follows:

- (i) It has been fixed for Mediation at the Kuala Lumpur Court Mediation Centre on 7 August 2019 wherein the parties have failed to reach an amicable settlement.
- (ii) The Case Management has been fixed on 3 September 2019 for the parties to inform the Court on the outcome of the Mediation; and
- (iii) The Full Trial has been fixed from 6 April 2020 until 9 April 2020 and on 13 April 2020.

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23. 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")

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.

HCM had received Adjudication Decision on 31 May 2019 whereby SCSB shall pay to HCM a net amount of RM832,003.29 of which HCM had received the same on 17 June 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.

HCM had received Adjudication Decision on 17 July 2019 whereby SCSB shall pay to HCM an adjudicated amount of RM784,426.64 (including interest and adjudication cost) of which HCM had received the same on 31 July 2019.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2019

24. Earnings Per Share

	<u>3 months</u> <u>ended</u> 30.6.2019	<u>6 months</u> <u>ended</u> 30.6.2019
Net profit for the financial quarter (RM'000)	2,759	3,988
Weighted average number of ordinary shares in issue ('000)	488,868	488,868
Basic earnings per share (sen)	<u>0.56</u>	<u>0.81</u>

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

25. 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 August 2019.