

INTERIM REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 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 year ended 31 December 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 year ended 31 December 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 31.12.2019	12 months ended 31.12.2019	3 months ended 31.12.2019	12 months ended 31.12.2019
OPERATING SEGMENTS	RM'000	RM'000	RM'000	RM'000
Maintenance	151,297	437,011	15,945	41,423
Construction	35,111	290,356	(8,315)	10,087
Property Development	1,864	6,156	(474)	(6,273)
Engineering Services	10,524	38,969	67	(3,610)
Trading & Manufacturing	50,949	149,085	1,045	2,051
Education	9,871	44,418	1,744	529
Others & Eliminations	(17,408)	(142,420)	(2,888)	(9,599)
GROUP	242,208	823,575	7,124	34,608

8. Valuation of Property, Plant and Equipment

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

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9. Subsequent Events

There was no event subsequent to the end of the current financial year 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 year ended 31 December 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 31.12.2019</u> RM'000
Purchase of property, plant and equipment	<u>12,938</u>

13. Dividend

In respect of the financial year ended 31 December 2019:-

- a) 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 was paid on 10 July 2019.
- b) a dividend of 0.6 sen per ordinary share amounting to RM2,910,090 computed based on the issued and paid-up capital as at 31 December 2019 (excluding treasury share) of 485,013,410 ordinary shares was paid on 10 January 2020.

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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

Operating Segments	Quarter Ended			Year-to-Date Ended		
	31.12.2019	31.12.2018	Variance	31.12.2019	31.12.2018	Variance
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue						
Maintenance	151,297	143,399	6%	437,011	515,837	-15%
Construction	35,111	112,043	-69%	290,356	288,162	1%
Property Development	1,864	7,208	-74%	6,156	9,740	-37%
Engineering Services	10,524	5,671	86%	38,969	50,060	-22%
Trading & Manufacturing	50,949	57,124	-11%	149,085	168,957	-12%
Education	9,871	11,178	-12%	44,418	50,332	-12%
Others & Eliminations	(17,408)	(66,300)	74%	(142,420)	(178,228)	20%
GROUP	242,208	270,323		823,575	904,860	
Profit/(Loss) Before Interest and Tax						
Maintenance	14,883	7,170	108%	40,205	38,492	4%
Construction	(7,339)	(33,750)	78%	10,911	(39,936)	127%
Property Development	197	(1,592)	112%	(3,343)	(4,963)	33%
Engineering Services	94	(5,387)	102%	(3,466)	(578)	-500%
Trading & Manufacturing	1,539	882	74%	3,289	3,019	9%
Education	2,019	920	119%	1,750	(415)	522%
Others & Eliminations	(2,050)	(4,760)	57%	(6,700)	(8,805)	24%
GROUP	9,343	(36,517)		42,646	(13,186)	
Profit/(Loss) Before Taxation						
Maintenance	15,945	7,271	119%	41,423	38,385	8%
Construction	(8,315)	(34,468)	76%	10,087	(40,759)	125%
Property Development	(474)	(2,632)	82%	(6,273)	(9,008)	30%
Engineering Services	67	(5,475)	101%	(3,610)	(783)	-361%
Trading & Manufacturing	1,045	377	177%	2,051	1,642	25%
Education	1,744	550	217%	529	(1,947)	127%
Others & Eliminations	(2,888)	(5,546)	48%	(9,599)	(11,408)	16%
GROUP	7,124	(39,923)		34,608	(23,878)	

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14. Analysis of Unaudited Performance of the Group by Operating Segment

a) Current Quarter

Group

The Group revenue of RM242.2 million as compared to RM270.3 million in the preceding year corresponding quarter representing a decrease of RM28.1 million. The lower revenue was mainly due to less progress billings for the Perumahan Penjawat Awam (“PPA”) Phase 2 Project in the Construction segment which is near its completion stage as at the current quarter.

Despite recording lower revenue, the profit before tax was RM7.1 million as compared to loss before tax of RM39.9 million in the preceding year corresponding quarter mainly due to the following:-

- i) One-off impairments and write-offs of RM37.8 million of construction portfolio assets in 2018; and
- ii) Lower interest costs of RM1.2 million as a result of lower borrowing rates in Q4 2019 as compared to Q4 2018.

1) Maintenance

The Maintenance segment revenue increased by 6% (RM7.9 million) from RM143.4 million in the preceding year corresponding quarter to RM151.3 million in the current quarter as a result of higher periodic maintenance works awarded. Profit before tax increased by RM8.7 million due to higher revenue and due effective cost containment measures.

2) Construction

The Construction segment revenue decreased by 69% (RM77.0 million) from RM112.1 million in the preceding year corresponding quarter to RM35.1 million in the current quarter due to lower progress billings from the PPA Phase 2 project as the project is near its completion stage. However, loss before tax decreased by 76% (RM26.2 million) from RM34.5 million in the preceding year corresponding quarter to RM8.3 million in the current quarter due to one-off impairments and write-offs of RM37.8 million of construction portfolio assets in Q4 2018.

3) Property Development

The Property Development segment revenue decreased by 74% from RM7.2 million in the preceding year corresponding quarter to RM1.9 million in the current quarter. This was due to lower occupancy rate in student residence. Despite the lower revenue in the current quarter, loss before tax decreased from RM2.6 million in the preceding year corresponding quarter to RM0.5 million in the current quarter due to impairments on subsidiaries in Q4 2018.

4) Engineering Services

The Engineering Services segment revenue increased by 86% (RM4.9 million) from RM5.6 million in the preceding year corresponding quarter to RM10.5 million in the current quarter due to increase in demand for geotechnical works. Profit before tax was RM0.1 million in the current quarter as compared to loss before tax of RM5.5 million in the preceding year corresponding quarter due to losses incurred by the regional centers in 2018. These regional centers were closed down in mid-2019.

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a) Current Quarter (Cont'd)

5) Trading and Manufacturing

The Trading and Manufacturing segment revenue decreased by 11% (RM6.2 million) from RM57.1 million in the preceding year corresponding quarter to RM50.9 million in the current quarter due to revenue for non-pavement works reduced by RM21.0 million during Q4 2019 despite revenue for bitumen and quarry products increased by RM15.0 million. Profit before tax was RM1.0 million as compared to RM0.4 million in the preceding year corresponding quarter due to impairment of receivables in Q4 2018.

6) Education

The Education segment revenue decreased by 12% (RM1.3 million) from RM11.2 million in the preceding year corresponding quarter to RM9.9 million in the current quarter due declining in student population. Profit before tax increased from RM0.5 million in the preceding year corresponding quarter to RM1.7 million in the current quarter due to:-

- i) Lower provision for bad debts of RM0.3 million in Q4 2019 as compared to Q4 2018;
- ii) Lower advertisement expenses of RM0.4 million in Q4 2019; and
- iii) Lower marketing agent fees of RM0.7 million in Q4 2019.

b) Year-to-Date

Group

For the financial year ended 31 December 2019, the Group recorded a revenue of RM823.6 million; a decrease of RM81.3 million as compared to the preceding year of RM904.9 million. The decrease in group revenue were mainly attributed to the following:-

- (1) Less periodic maintenance works awarded in the Maintenance segment;
- (2) This affected the revenue of Trading and Manufacturing segment as it is the main supplier to the sub-contractors;
- (3) Less geotechnical works secured by the Engineering segment; and
- (4) Declining student population in the Education segment.

Despite the decrease in revenue, the Group loss before taxation improved from RM23.8 million in the preceding year to profit before taxation of RM34.6 million in the current financial year. These were mainly due to the non-recurring of one-off impairments and write-offs of RM37.8 million of construction portfolio assets in 2018 and positive impact of the right sizing exercise embarked from September 2018, a major factor in the RM38.8 million reduction of operating expenses from RM141.7 million in the preceding year to RM103.3 million in the current financial year.

The Group recorded a profit after tax of RM19.1 million of which RM5.9 million is attributable to the owner of the Group and RM13.1 million attributable to the non-controlling interests.

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

The analysis of the financial performance by each segment is illustrated as below:

1) Maintenance

The Maintenance segment recorded revenue of RM437.0 million as compared to RM515.8 million in the preceding year due to less periodic maintenance works awarded. The profit before tax increased to RM41.4 million as compared to RM38.4 million in the preceding year due mainly to a reduction in administrative and manpower expenses of RM2.5 million from RM27.7 million in the preceding year to RM25.2 million in the current financial year.

2) Construction

The Construction segment achieved a higher revenue of RM290.4 million as compared to RM288.2 million in the preceding year. This segment posted a reversal from a loss before tax of RM40.8 million in the preceding year to a profit before tax of RM10.1 million due to non-recurring of one-off impairments and write-offs of RM37.8 million of construction portfolio assets in 2018 and progress billings for the construction of Radisson Park-In hotel.

3) Property Development

The Property Development segment recorded revenue of RM6.2 million due to sale of 4 units of inventories which amounted to RM1.9 million from Block C and D of Phase 2B and rental of its investment properties.

The loss before tax in property development activities of RM1.7 million was due to overheads of RM1.8 million and interest expense of RM0.8 million.

The loss before tax in property investment activities of RM4.6 million was due to low occupancy rate in student residence and interest expense of RM2.1 million. In respect of the mall, electricity cost, depreciation and interest expense have resulted in the loss.

4) Engineering Services

The Engineering Services segment revenue decreased by 22% (RM11.2 million) from RM50.1 million in the preceding year to RM38.9 million for the current financial year due to less geotechnical and pavement works secured. This segment posted a loss before tax of RM3.6 million as compared to RM0.7 million in the preceding year due to less geotechnical works secured in the current financial year.

5) Trading and Manufacturing segment

The Trading and Manufacturing segment revenue decreased by 12% (RM19.8 million) from RM168.9 million in the preceding year to RM149.1 million in the current financial year in tandem with the less periodic works undertaken by the Maintenance segment. The total non-pavement work for 2019 reduced by RM36.0 million as compared to 2018. On the other hand, revenue of bitumen and quarry products increased almost RM23.0 million in 2019. Profit before tax increased by 25% (RM0.4 million) from RM1.6 million in the preceding year to RM2.0 million in the current year due to impairment losses of receivables in the preceding year.

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

6) **Education segment**

The Education segment revenue decreased by 12% (RM5.9 million) from RM50.3 million in the preceding year to RM44.4 million in the current financial year due to declining student population. The student population at the end of the financial year decreased to 2,465 as compared to preceding year of 2,960. The profit before tax was RM0.5 million as compared to a loss before taxation of RM1.9 million in the preceding year mainly due to a reduction in operating expenses from RM15.1 million in the preceding year to RM12.3 million in the current financial year.

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

Operating Segments	Quarter Ended		Difference
	31.12.2019	30.9.2019	
	RM'000	RM'000	RM'000
Revenue			
Maintenance	151,297	102,486	48,811
Construction	35,111	109,335	(74,224)
Property Development	1,864	860	1,004
Engineering Services	10,524	3,005	7,519
Trading & Manufacturing	50,949	42,228	8,721
Education	9,871	12,787	(2,916)
Others and Eliminations	(17,408)	(44,238)	26,830
GROUP	242,208	226,463	15,745
Profit/(Loss) Before Interest and Tax			
Maintenance	14,883	10,321	4,562
Construction	(7,339)	6,467	(13,806)
Property Development	197	(1,197)	1,394
Engineering Services	94	(3,907)	4,001
Trading & Manufacturing	1,539	831	708
Education	2,019	1,441	578
Others and Eliminations	(2,050)	(2,363)	313
GROUP	9,343	11,593	(2,250)
Profit/(Loss) Before Taxation			
Maintenance	15,945	10,188	5,757
Construction	(8,315)	6,808	(15,123)
Property Development	(474)	(1,841)	1,367
Engineering Services	67	(3,937)	4,004
Trading & Manufacturing	1,045	517	528
Education	1,744	1,151	593
Others and Eliminations	(2,888)	(3,072)	184
GROUP	7,124	9,814	(2,690)

The Group recorded higher revenue of RM242.2 million but lower profit before tax of RM7.1 million for the current quarter ended 31 December 2019 as compared to the immediate preceding quarter of RM226.5 million and RM9.8 million respectively.

The higher revenue were due to:-

- (1) Maintenance segment - higher periodic maintenance works awarded in Q4 as compared to Q3;
- (2) Trading and Manufacturing segment – higher demand for quarry and bitumen products;
- (3) Engineering segment – higher geotechnical works in Q4 as compared to Q3.

The lower profit before tax was caused by the construction segment due to lower progress billings for the PPA1M Phase 2 project.

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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 financial year ended 31 December 2019, these efforts had yielded positive results and contributed to the Group earnings.

For the next financial year, Maintenance segment is expected to remain as the main revenue contributor to the Group. The Group has recently embarked on its Clean Energy business and expect this Business segment to contribute positively to the earnings and net assets of the Group in the next financial year.

The Group is also actively pursuing other opportunities to improve its Maintenance, Construction, Trading & Manufacturing segments and other business opportunities to enhance shareholders return.

Barring unforeseen circumstances, the Group is confident that the existing profit momentum will continue and the Group will continue to record profit in the next 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>31.12.2019</u> RM'000	<u>Corresponding</u> <u>Year To Date</u> <u>31.12.2018</u> RM'000
Profit after taxation for the financial year is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	12,898	14,227
Depreciation of investment properties	1,909	1,703
Impairment losses on receivables	1,271	9,850
Interest expense	11,029	14,457
Gain on disposal of property, plant and equipment	(447)	(164)
Interest income	(1,219)	(1,526)
Writeback of impairment losses on receivables	(2,342)	(573)

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20. Corporate Proposals

There was no corporate proposal announced but not completed in the current quarter up to 27 February 2020, being the last practicable date from the date of the issue of this report.

21. Borrowings and Debt Securities

	<u>As at 31.12.2019</u>	<u>As at 31.12.2018</u>
	RM'000	RM'000
Secured:		
- Short term borrowings	71,386	72,668
- Long term borrowings	258,960	157,260
- Bank overdrafts	25,635	35,030
Total Secured Borrowings	<u>355,981</u>	<u>264,958</u>
Unsecured:		
- Short term borrowings	22,971	20,734
Total Unsecured Borrowings	<u>22,971</u>	<u>20,734</u>
Total borrowings	<u>378,952</u>	<u>285,692</u>

The total borrowings increased from RM285.7 million as at 31 December 2018 to RM378.9 million as at 31 December 2019 due to drawdown of RM182.6 million to finance the construction of PPA Phase 2 project and Radisson Park-In Hotel of RM24.5 million. As a result, the net gearing ratio increased to 0.60 times as at 31 December 2019 from 0.29 times as at 31 December 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 31.12.2019</u>	<u>As at 31.12.2018</u>
	RM'000	RM'000
Less than 6 months	122,232	132,793
6 to 12 months	20,910	25,159
1 to 2 years	29,643	39,329
More than 2 years	25,260	15,344
	<u>198,045</u>	<u>212,625</u>

Normal credit terms ranges 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 trial dates of the said legal proceeding have been fixed on 18, 19, 21, 24 – 28 August 2020 and on 1, 2 and 4 September 2020.

The next Case Management is fixed on 7 April 2020.

Meanwhile, the 2nd and 3rd Defendants had on 20 September 2019 filed an application to strike out the KL High Court Suit. The said application is yet to be fixed for hearing.

The 2nd and 3rd Defendants had also, on 20 January 2020, filed an application to strike out the trial dates of the KL High Court Suit. The said application is yet to be fixed for hearing.

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

INTERIM REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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 was fixed on 23 September 2019 wherein the Court of Appeal has dismissed the appeals filed by HCM, with costs of RM5,000 each.

INTERIM REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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;
- (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.

INTERIM REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

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)

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

The status of the Legal Proceeding is as follows:

- (i) AMG Contract Services Sdn Bhd has been appointed as "Delay Expert" to assist the Court on the issue of delay in completion.
- (ii) The Full Trial has been fixed from 6 April 2020 until 9 April 2020 and on 13 April 2020.
- (iii) A mediation proceeding has been fixed on 25 March 2020.

(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.

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.

We are in the process of filling our final claim against SCSB.

INTERIM REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

23. Material Litigations (Cont'd)

(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.

We are in the process of filling our final claim against SCSB.

(vi) 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.

By a Letter of Acceptance of Offer dated 3rd December 2015, SCSB engaged HCM as the main contractor for the Construction, Completion, Testing and Handover of Road and Drainage 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 RM7,041,900.00.

INTERIM REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

23. Material Litigations (Cont'd)

(vi) 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)

HCM has commenced the adjudication proceedings to claim the remainder sum of RM6,579,217 from SCSB for construction works done and due to non-payment by SCSB. HCM is also claiming for late payment interest and cost.

The status updates are as follows:

1. HCM served its Payment Claim to SCSB on 26 November 2019.
2. SCSB served its Payment Response on 19 December 2019 disputing the claim.
3. HCM served its Adjudication Claim on 2 February 2020.
4. SCSB served its Adjudication Response on 14 February 2020.
5. HCM shall serve its Reply to SCSB's Adjudication Response in due course.

24. Earnings Per Share

The basic earnings per share of the Group is calculated by dividing the profit attributable to the owners of the Company over the weighted average number of ordinary shares in issue, excluding treasury shares.

	<u>3 months</u> <u>ended</u> 31.12.2019	<u>12 months</u> <u>ended</u> 31.12.2019
Net profit for the financial quarter (RM'000)	1,043	5,990
Weighted average number of ordinary shares in issue ('000)	487,510	487,510
Adjustment for assumed exercise of warrants ('000)	106,051	106,051
Adjusted weighted average number of ordinary shares issued and issuable ('000)	<u>593,561</u>	<u>593,561</u>
Basic earnings per share (sen)	<u>0.21</u>	<u>1.23</u>
Fully diluted earnings per share (sen)	<u>0.17</u>	<u>1.01</u>

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 27 February 2020.