

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

**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 2019. 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 2019.

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 2019, except for the adoption of the amendments to accounting standards below that are relevant and effective for accounting periods on or after 1 January 2020 as follows: -

Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 9, MFRS 139 and MFRS 7	Interest Rate Benchmark Reform
Amendments to MFRS 101 and MFRS 108	Definition of Material

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

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

3. Declaration of Audit Qualification

The audited financial statements of the Group for the financial year ended 31 December 2019 was not subject to any audit qualification.

4. Seasonal or Cyclical Factors

The Group's business operations for the quarter ended 30 June 2020 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 2020.

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
	30.6.2020	30.6.2020	30.6.2020	30.6.2020
OPERATING SEGMENTS	RM'000	RM'000	RM'000	RM'000
Maintenance	93,839	181,201	9,529	20,730
Construction	15,262	19,239	3,924	4,634
Property Development	1,826	2,447	(6,569)	(8,909)
Engineering Services	6,458	12,177	(2,000)	(5,199)
Trading & Manufacturing	54,037	87,791	1,068	1,027
Education	8,097	17,572	(553)	(1,919)
Others & Eliminations	(7,578)	(13,306)	(941)	(1,615)
GROUP	171,941	307,121	4,458	8,749

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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

9. Subsequent Events

There were no material events subsequent to the current quarter under review other than: -

Sun Rock Development Sdn. Bhd. ("SRDSB") (a wholly-owned subsidiary held via Protasco Development Sdn. Bhd.), has on 13 July 2020 entered into a Sale and Purchase Agreement ("SPA") with NSK Property Sdn. Bhd. to dispose 3 pieces of commercial lands for a total consideration of RM16,720,000.00. The land disposal expected to result a one-off gain of approximately RM3.065 million to SRDSB, to be recognised during the financial year ending 31 December 2020, subject to completion of the disposal.

10. Changes in Composition of the Group

There were no material changes in the composition of the Group during the financial period ended 30 June 2020.

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 30.6.2020</u>
	RM'000
Purchase of property, plant and equipment	<u>733</u>

13. Dividend

No dividend was declared or paid for the financial period ended 30 June 2020.

In respect of the financial year ended 31 December 2019, a first interim dividend of RM0.6 sen per ordinary share amounting to RM2.92 million 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.

The second interim dividend of RM0.6 sen per ordinary share amounting to RM2.91 million 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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020
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			Year-to-Date Ended		
	30.6.2020	30.6.2019	Variance	30.6.2020	30.6.2019	Variance
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue						
Maintenance	93,839	90,134	4%	181,201	183,228	-1%
Construction	15,262	86,847	-82%	19,239	145,910	-87%
Property Development	1,826	2,643	-31%	2,447	3,432	-29%
Engineering Services	6,458	13,822	-53%	12,177	25,440	-52%
Trading & Manufacturing	54,037	35,155	54%	87,791	55,908	57%
Education	8,097	10,389	-22%	17,572	21,760	-19%
Others & Eliminations	(7,578)	(50,369)	85%	(13,306)	(80,774)	84%
GROUP	171,941	188,621		307,121	354,904	
Profit/(Loss) Before Interest and Tax						
Maintenance	8,721	6,290	39%	19,885	15,001	33%
Construction	4,169	7,557	-45%	5,222	11,783	-56%
Property Development	(6,022)	(248)	-2328%	(7,601)	(2,343)	-224%
Engineering Services	(1,534)	(887)	-73%	(4,030)	347	-1261%
Trading & Manufacturing	1,271	537	137%	1,402	919	53%
Education	(348)	(1,092)	68%	(1,472)	(1,710)	14%
Others & Eliminations	(707)	(464)	-52%	(1,360)	(2,287)	41%
GROUP	5,550	11,693		12,046	21,710	
Profit/(Loss) Before Taxation						
Maintenance	9,529	6,368	50%	20,730	15,290	36%
Construction	3,924	7,729	-49%	4,634	11,594	-60%
Property Development	(6,569)	(994)	-561%	(8,909)	(3,958)	-125%
Engineering Services	(2,000)	(938)	113%	(5,199)	260	-2100%
Trading & Manufacturing	1,068	290	268%	1,027	489	110%
Education	(553)	(1,419)	61%	(1,919)	(2,366)	19%
Others & Eliminations	(941)	(1,119)	16%	(1,615)	(3,639)	56%
GROUP	4,458	9,917		8,749	17,670	

a) Current Quarter
Group

The Group revenue decreased by RM16.7 million from RM188.6 million to RM171.9 million due to the following: -

- (i) lower progress billings from the Construction segment PPA Phase 2 project as it is near completion stage;
- (ii) lower geotechnical and pavement works secured in the Engineering Services segment; and
- (iii) declining student population in the Education segment.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

14. Analysis of Unaudited Performance of the Group by Operating Segment (cont'd)

a) Current Quarter (cont'd)

The Group profit before tax decreased to RM4.5 million due to lower revenue from the Construction and Engineering segments and the charge-out of the property development cost under the Property segment.

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

1) Maintenance

Revenue increased by 4% (RM3.7 million) from RM90.1 million to RM93.8 million due to more periodic maintenance works performed in the current quarter. In line with the increase in revenue, PBT increased by 39% (RM3.1 million) from RM6.4 million to RM9.5 million.

2) Construction

Revenue decreased by 82% (RM71.6 million) from RM86.9 million to RM15.3 million due to lower progress billings from the PPA Phase 2. The decreased revenue has resulted in reduced profit before tax by 41% (RM3.1 million) from RM7.7 million to RM4.6 million.

3) Property Development

Revenue decreased by 31% (RM0.8 million) from RM2.6 million to RM1.8 million due to no disposal of unsold inventory units. The current quarter revenue was derived mainly from the rental of investment properties. The loss before tax increased from RM0.9 million to RM6.6 million due to charge-out of property development cost incurred amounting to RM4.9 million in one of the JV agreements which has expired.

4) Engineering Services

Revenue decreased by 53% (RM7.3 million) from RM13.8 million to RM6.5 million due to lower geotechnical and pavement works performed. The substantial decrease in revenue has resulted in increased loss before tax from RM0.9 million to RM2.0 million.

5) Trading and Manufacturing

Revenue increased by 54% (RM18.8 million) from RM35.2 million to RM54.0 million due to increase in periodic works undertaken by the Maintenance segment, whereby this segment is the main supplier to the sub-contractors. In line with the increased in revenue and coupled with reduction in administrative and operating expenses, the profit before tax increased from RM0.3 million to RM1.1 million.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

14. Analysis of Unaudited Performance of the Group by Operating Segment (cont'd)

a) Current Quarter (cont'd)

6) Education

Revenue decreased by 22% (RM2.3 million) from RM10.4 million to RM8.1 million due to declining student population as a result of the enforcement of Movement Control Order (MCO) during the Covid-19 pandemic. However, the loss before tax has decreased from RM1.4 million to RM0.6 million due to the rightsizing measures which reduced admin and operating expenses by RM0.7 million.

b) Year-to-Date

The Group recorded a revenue of RM307.1 million a decrease of RM47.8 million as compared to RM354.9 million mainly attributed to the followings:

- (1) Lower progress billings from the Construction segment PPA Phase 2 project as it is near completion stage;
- (2) Less geotechnical and pavement works secured by the Engineering segment; and
- (3) Declining student population in the Education Segment.

The Group profit before tax decreased from RM17.7 million to RM8.7 million due to the decrease in revenue in the Construction and Engineering segments and the charge-out of property development costs under the Property segment.

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

1) Maintenance

Revenue was RM181.2 million as compared to RM183.2 million due to lower routine works. The profit before tax increased to RM20.7 million as compared to RM15.3 million due to decrease in maintenance material, overheads and administrative expenses.

2) Construction

Revenue was RM19.2 million as compared to RM145.9 million as the PPAM Phase 2 is near its completion. The decrease in revenue has resulted in reduced profit before tax from RM11.6 million to RM4.6 million.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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

3) **Property Development**

Lower revenue of RM2.4 million as compared to RM3.4 million due to no disposal of unsold inventory units. The current period revenue was derived from rental of its investment properties.

The loss before tax in property development activities of RM8.9 million was due to charge-out of property development cost incurred in one of the JV agreements which has expired amounting to RM4.9 million, lower revenue from property investment and a flow through effect from no revenue recognition from Radisson Park Inn Hotel due to deferment in launching.

4) **Engineering Services**

Revenue decreased by 52% from RM25.4 million to RM12.2 million due to lower geotechnical and pavement works performed.

Current period loss before tax of RM5.2 million as compared to profit before tax of RM0.3 million in the preceding year corresponding period was a result of flow through of lower revenue recognised.

5) **Trading and Manufacturing segment**

Revenue increased by 57% (RM31.9 million) from RM55.9 million to RM87.8 million due to higher periodic and emergency works undertaken by Maintenance segment during the current period, whereby this segment is the main supplier to the sub-contractors for bitumen and quarry materials.

Consequently, profit before tax increased by 110% (RM0.5 million) from RM0.5 million to RM1.0 million.

6) **Education segment**

Revenue decreased by 19% (RM4.2 million) from RM21.8 million to RM17.6 million due to significant drop in student population.

Despite the substantial decrease in revenue, loss before tax improved from RM2.4 million to RM1.9 million due to countermeasures undertaken by the business unit through its strict cash management in balancing the marketing and communications needs, specifically in advertising and promotional expenses which achieved a decrease of RM0.5 million.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020
15. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter

Operating Segments	Quarter Ended		Difference
	30.6.2020	31.3.2020	
	RM'000	RM'000	RM'000
Revenue			
Maintenance	93,839	87,362	6,477
Construction	15,262	3,977	11,285
Property Development	1,826	621	1,205
Engineering Services	6,458	5,719	739
Trading & Manufacturing	54,037	33,754	20,283
Education	8,097	9,475	(1,378)
Others and Eliminations	(7,578)	(5,728)	(1,850)
GROUP	171,941	135,180	36,761
Profit/(Loss) Before Interest and Tax			
Maintenance	8,721	11,164	(2,443)
Construction	4,169	1,053	3,116
Property Development	(6,022)	(1,579)	(4,443)
Engineering Services	(1,534)	(2,496)	962
Trading & Manufacturing	1,271	131	1,140
Education	(348)	(1,124)	776
Others and Eliminations	(707)	(653)	(54)
GROUP	5,550	6,496	(946)
Profit/(Loss) Before Taxation			
Maintenance	9,529	11,201	(1,672)
Construction	3,924	710	3,214
Property Development	(6,569)	(2,340)	(4,229)
Engineering Services	(2,000)	(3,199)	1,199
Trading & Manufacturing	1,068	(41)	1,109
Education	(553)	(1,366)	813
Others and Eliminations	(941)	(674)	(267)
GROUP	4,458	4,291	167

The Group revenue increased by 27% from RM135.2 million to RM171.9 million due to the increase in revenue from the following segments: -

- (1) Maintenance - Higher periodic works awarded;
- (2) Trading and Manufacturing – Higher periodic and emergency works benefited Trading and Manufacturing segment as it is the main supplier to the sub-contractors for Maintenance segment; and
- (3) Construction – Progress billing in Q1 2020 were deferred to Q2 2020 due to the outbreak of Covid-19 and imposition of MCO.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

15. Material Changes in the Quarterly Results Compared to the Results of the Preceding Quarter (cont'd)

Although revenue increased by RM36.8 million, profit before tax increased marginally by RM0.2 million due to the charge-out of property development costs of RM4.9 million in the current quarter.

16. Commentary on Prospects

During the financial year ended 31 December 2019, the Group had returned to profitability mainly as a result of the right sizing and cost optimisation exercise implemented since the third quarter of 2018.

For the current financial year, the outbreak of the Covid-19 pandemic early this year and the implementation of the nationwide Movement Control Order (“MCO”) and Conditional MCO since 18 March 2020 to contain the spread of Covid-19 had caused a severe dampening on the economic activities and uncertainties in the overall market environment.

With these various adversities and challenging business landscape, the Group’s operations and financial performances were affected as a result of:

- (1) delayed physical works and progress billings;
- (2) reduction in the student population; and
- (3) fewer projects secured.

In response to the expected adverse scenario, the Group is implementing various business strategies and countermeasures to mitigate and overcome the adverse financial effect which include further cost optimisation exercise and enhance efforts to improve operational efficiencies.

As the country moves into the Recovery MCO phase and various economic stimulus packages introduced by the government, the Group believes the consumer confidence and market conditions will gradually improve over time and remains cautiously optimistic of the prospects of recovery given the positive progression on the containment of the current pandemic.

While the Group expects short term setbacks in some of its business segments, the Group remains confident of its medium and long-term business prospects.

The Group is also actively pursuing other business opportunities to enhance shareholders’ return.

17. Profit Forecast or Profit Guarantee

Not applicable.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020
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>30.6.2020</u> RM'000	<u>Corresponding</u> <u>Year To Date</u> <u>30.6.2019</u> RM'000
Profit after taxation for the financial period is arrived at after charging / (crediting):		
Depreciation of property, plant and equipment	4,768	6,678
Depreciation of investment properties	911	912
Depreciation of right-of-use assets	1,511	-
Impairment losses on receivables	674	631
Interest expense	4,694	5,411
Gain on disposal of property, plant and equipment	(4)	(140)
Interest income	(825)	(807)
Write back of impairment losses on receivables	(9)	(310)
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20. Corporate Proposals

There was no corporate proposal announced but not completed in the current quarter up to 26 August 2020, being the last practicable date from the date of the issue of this report.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020
21. Borrowings and Debt Securities

	<u>As at 30.6.2020</u>	<u>As at 30.6.2019</u>
	RM'000	RM'000
Secured:		
- Short term borrowings	271,172	89,235
- Long term borrowings	83,536	215,585
- Bank overdrafts	40,909	28,363
Total Secured Borrowings	<u>395,617</u>	<u>333,183</u>
Unsecured:		
- Short term borrowings	7,976	15,448
Total Unsecured Borrowings	<u>7,976</u>	<u>15,448</u>
Total borrowings	<u>403,593</u>	<u>348,631</u>

The total borrowings increased from RM348.6 million as at 30 June 2019 to RM403.6 million as at 30 June 2020 due to drawdown of RM189.8 million to finance the construction of PPA Phase 2 project, Radisson Park-In Hotel of RM26.6 million and Solar PV System projects of RM18.1 million. As a result, the net gearing ratio increased to 0.98 times as at 30 June 2020 from 0.80 times as at 30 June 2019.

There is no borrowing denominated in foreign currency. The effective interest rate ranges from 3.86% to 7.42% for the conventional borrowings and from 4.13% to 8.35% 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 30.6.2020</u>	<u>As at 30.6.2019</u>
	RM'000	RM'000
Less than 6 months	172,393	189,616
6 to 12 months	45,241	44,623
1 to 2 years	38,910	31,021
More than 2 years	13,060	20,296
	<u>269,604</u>	<u>285,556</u>

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

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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, the 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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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 the 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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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 2019, 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 2019 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 2nd and the 3rd Defendants had on 20 September 2019 filed an application to strike out the Kuala Lumpur High Court Suit No.: 22NCC-362-09/2014 (“Strike Out Application”). The Strike Out Application has been fixed for Hearing on 27 August 2020.

The 2nd and the 3rd Defendants have on 22 January 2020 filed an application to stay the trial of the Kuala Lumpur High Court Suit No.: 22NCC-362-09/2014 (“Stay Application”). The Stay Application has been struck out by the Kuala Lumpur High Court with no order as to costs.

The Company had on 13 May 2020 filed 3 applications for leave to appeal to the Federal Court (“Federal Court Applications”) against the judgment of the Court of Appeal dated 6 March 2020 (appeals in relation to Bankers’ Books (Evidence) Act 1949). The said applications are fixed for Case Management on 28 July 2020 and for Hearing on 25 August 2020 at the Federal Court.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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)**

In view of the Federal Court applications, the said trial dates which has been fixed on 18, 19, 21, 24 to 28 August 2020 and 1, 2 and 4 September 2020 for the legal proceedings against the 2nd and the 3rd Defendants is now vacated (postponed) to ensure that the Federal Court applications are disposed of first.

The next case management of the KL High Court is fixed before the High Court Judge on 27 August 2020.

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.

- (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 2018.

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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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 (cont'd)

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 2018.

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.

(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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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, 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.

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;

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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)

- (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.

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

KL High Court had fixed the following dates in respect of the legal proceeding filed by HCM against Kuasatek on 11 March 2019, claiming the sum of RM3,087,917.74 for breach of contract by Kuasatek:-

1. It has been fixed for case management on 3 September 2020.
2. It has been fixed for full trial from 5 October 2020 until 9 October 2020.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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 3rd December 2015, wherein SCSB engaged HCM as the subcontractor 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.

HCM had received Adjudication Decision whereby SCSB shall pay HCM a net amount of RM832,003 of which HCM had received the same on 17 June 2019.

HCM had, on 16 December 2019, filed a fresh Notice of Adjudication under Section 8 of CIPAA 2012 with the AIAC to commence adjudication proceedings against SCSB 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 amount of which will be determined at a later stage.

HCM had received adjudication decision on 12 March 2020 whereby the claim has been dismissed with costs of RM30,000.

(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.

INTERIM REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2020

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") (cont'd)

The claims were in relation to a Letter of Acceptance of Offer dated 3 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.

On 19 July 2019, HCM had received Adjudication Decision whereby SCSB shall pay HCM an adjudicated amount of RM784,427 (including interest and adjudication cost) of which HCM had received the same on 31 July 2019.

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> 30.6.2020	<u>6 months</u> <u>ended</u> 30.6.2020
Net loss for the financial quarter (RM'000)	(1,735)	(4,229)
Weighted average number of ordinary shares in issue ('000)	483,004	483,004
Adjustment for assumed exercise of warrants ('000)	106,051	106,051
Adjusted weighted average number of ordinary shares issued and issuable ('000)	<u>589,055</u>	<u>589,055</u>
Basic loss per share (sen)	<u>(0.36)</u>	<u>(0.88)</u>
Fully diluted loss per share (sen)	<u>(0.29)</u>	<u>(0.72)</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 26 August 2020.