

**MELATI EHSAN HOLDINGS BERHAD (673293-X)**  
**(Incorporated in Malaysia)**

**A. EXPLANATORY NOTES PURSUANT TO THE MALAYSIAN FINANCIAL REPORTING STANDARD (MFRS) 134: INTERIM FINANCIAL REPORTING**

**A1. Basis of preparation**

The unaudited interim financial report has been prepared in compliance with Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of the Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the financial year ended 31 August 2018.

The Group is adopting the MFRS framework for the first time in the current financial year beginning 1 September 2018. In presenting its first MFRS financial statements, the Group is required to restate the comparative financial statements to amounts reflecting the application of MFRS framework, as if these policies had always been in effect.

The accounting policies and methods of computation adopted in this interim financial report are consistent with those adopted in the annual audited financial statements for the financial year ended 31 August 2018 except for the adoption of new MFRSs, amendments to MFRSs and IC Interpretations (IC) which are relevant to its operations and effective for the financial period beginning on or after 1 September 2018.

Title		Effective Date
Amendments to MFRS 1	Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
MFRS 15	Revenue from Contracts with Customers	1 January 2018
Clarification to MFRS 15		1 January 2018
MFRS 9	Financial Instruments (IFRS as issued by IASB in July 2014)	1 January 2018
Amendments to MFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 128	Annual Improvements to MFRS Standards 2014 - 2016 Cycle	1 January 2018
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to MFRS 140	Transfers of Investment Property	1 January 2018
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	See MFRS 4 Paragraphs 46 and 48

The adoption of these MFRSs, amendments to MFRSs and IC Interpretations do not have significant impact on the results and the financial position of the Group, except as disclosed below:

MFRS 9 – Financial Instruments

MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, encompassing all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of MFRS 9 has fundamentally changed the accounting for impairment losses for financial assets of the Group by replacing the incurred loss approach of MFRS 139 with a forward-looking expected credit loss approach. MFRS 9 requires the Group to record an allowance for expected credit losses for all debt financial assets not held at fair value through profit or loss.

MFRS 15 – Revenue from Contracts with Customers

MFRS 15 establishes a comprehensive framework for revenue recognition and measurement. It replaces MFRS 118 *Revenue*, MFRS 111 *Construction Contracts*, FRS 201(2004) *Property Development Activities* and related Interpretations. Under MFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires significant judgment.

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Reconciliation of Statement of Financial Position as at 1 September 2017

	As previously stated RM	Effect on adopting MFRSs RM	As restated RM
Trade and other receivables	128,184,561	(53,421)	128,131,140
Retained earnings	165,181,161	(53,421)	165,127,740

Reconciliation of Statement of Financial Position as at 31 August 2018

	As previously stated RM	Effect on adopting MFRSs RM	As restated RM
Trade and other receivables	225,391,438	(130,593)	225,260,845
Retained earnings	166,400,608	(130,593)	166,270,015

A2. **Audit report of preceding annual financial statements**

There were no audit qualification on the financial statements of the Company and its subsidiaries for the financial year ended 31 August 2018.

A3. **Seasonal or cyclical factors**

The Group's business operations were not materially affected by any major seasonal or cyclical factors.

A4. **Unusual items affecting assets, liabilities, equity, net income or cash flows**

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the current quarter under review.

A5. **Material changes in estimates**

There was no material changes in estimates used for preparation of the interim financial report.

A6. **Issuance or repayment of debts and equity securities**

There were no issuance, cancellation, repurchases, resale and repayment of debt and equity securities for the current quarter under review except as disclosed below:

As at 30 November 2018, 831,300 ordinary shares have been purchased for RM708,670 including the transaction costs. The shares repurchased are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act, 2016.

A7. **Dividend paid**

There were no dividends paid during the quarter under review.

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A8 **Segmental reporting**

**30 November 2018**

<b>REVENUE</b>	<b>Construction RM'000</b>	<b>Trading RM'000</b>	<b>Property Development RM'000</b>	<b>Others RM'000</b>	<b>Consolidated RM'000</b>
Total revenue	37,709	2,741	-	-	40,450
Inter-segment revenue	-	-	-	-	-
Revenue from external customer	37,709	2,741	-	-	40,450
<b>RESULT</b>					
Segment results	669	56	(367)	766	1,124
Finance costs	(209)	-	(20)	-	(229)
Interest income	34	-	14	11	59
Profit/(loss) before tax	494	56	(373)	777	954
Tax expense	(364)	(19)	-	-	(383)

No segmental information is provided on geographical basis as the Group's activities are conducted wholly in Malaysia.

A9. **Valuation of property, plant and equipment**

Property, plant and equipment of the Group are stated at cost less accumulated depreciation and impairment loss, if any.

There was no valuation of the property, plant and equipment during the current quarter under review.

A10. **Changes in the composition of the Group**

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

A11. **Contingent liabilities**

The details of Company contingent liabilities as at 30 November 2018 are as follows:

	<b>RM'000</b>
<b>Secured:</b>	
Guarantees given to financial institutions on credit facilities granted to subsidiaries	182,210
<b>Unsecured:</b>	
Guarantees given to a third parties for performance in the development agreement granted to a subsidiary	385,904
Guarantees given to a third parties for performance in the construction agreement granted to a subsidiary	19,481
Guarantees given to suppliers for credit facilities granted to a subsidiary	5,500
Guarantees given to a financial institution on credit facility granted to a subsidiary	144,000
Guarantees given to a financial institution on credit facilities granted to a joint venture	280,770
	835,655

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A12. **Commitments**

There was no capital commitment in the financial period ended 30 November 2018, except as disclosed below:

	<b>RM</b>
Capital expenditure contracted but not provided for in respect of:-	
- purchase of land held for property development	<u>70,135,849</u>

A13. **Subsequent events**

There was no other material events subsequent to the financial period ended 30 November 2018 up to the date of this report.

A14. **Cash and cash equivalents**

Cash and cash equivalents included in the statements of cash flows comprise the following:

	<b>RM</b>
Cash and bank balances	3,522,967
Fixed deposits with licensed banks	4,057,407
	<u>7,580,374</u>
Less:	
Deposits pledged with financial institution	<u>(2,056,990)</u>
	<u>5,523,384</u>

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

**B1. Review of performance**

Financial review for current quarter and financial period to date

	Individual Period		Changes (%)	Cumulative Period		Changes (%)
	Current Year Quarter	Preceding Year Corresponding Quarter (Restated)		Current Year To-Date	Preceding Year Corresponding Period (Restated)	
	30/11/2018 RM '000	30/11/2017 RM '000		30/11/2018 RM '000	30/11/2017 RM '000	
Revenue	40,450	44,197	(8)	40,450	44,197	(8)
Operating Profit	336	837	(60)	336	837	(60)
Profit Before Interest and Tax	1,183	819	44	1,183	819	44
Profit Before Tax	954	791	21	954	791	21
Profit After Tax	571	618	(8)	571	618	(8)
Profit Attributable to Ordinary Equity Holders of the Parent	571	618	(8)	571	618	(8)

For the financial period ended 30 November 2018, the Group achieved a revenue of RM40.450 million and profit before tax of RM0.954 million as compared to RM44.197 million and RM0.791 million respectively for the preceding year corresponding period.

The increased in profit before tax of the Group in the current financial period as compared to the preceding year corresponding period was attributed from a joint venture project.

Detailed analysis of the performance for the respective operating business segments for the period ended 30 November 2018 is as follows:

Construction

The group recorded revenue of RM37.709 million and profit before tax of RM0.494 million as compared to the preceding year corresponding period of RM36.404 million and RM0.139 million respectively. The revenue recorded in the current quarter was mainly attributed from the construction of road work in East Coast Economic Region (“ECER”) project, office tower at Jalan Conlay and “Perumahan Penjawat Awam Malaysia” (“PPAM”) project in Sentul.

Property development

There was no revenue recorded and a loss before tax of RM0.373 million as compared to the preceding year corresponding period revenue of RM2.560 million and profit before tax of RM0.603 million respectively. The loss before tax during the quarter was due mainly to operating expenses incurred.

Trading

The group recorded revenue of RM2.741 million and profit before tax of RM0.056 million as compared to the preceding year corresponding period of RM5.233 million and RM0.123 million respectively. The decreased in sales in the current quarter was due mainly to lower volume of building materials being traded and consumed by our appointed sub-contractors for the Group’s construction division.

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**B2. Comparison with preceding quarter results**

Financial review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter (Restated)	Changes (%)
	30/11/2018 RM '000	31/08/2018 RM '000	
Revenue	40,450	69,286	(42)
Operating Profit / (Loss)	336	(364)	192
Profit Before Interest and Tax	1,183	957	24
Profit Before Tax	954	845	13
Profit After Tax	571	865	(34)
Profit Attributable to Ordinary Equity Holders of the Parent	571	865	(34)

For the current quarter under review, the Group recorded a profit before tax of RM0.954 million as compared to RM0.845 million in the immediate preceding quarter. Despite reduced in revenue, there was an increased in profit before tax in the current financial quarter as compared to the immediate preceding quarter. The lower profit before tax in the immediate preceding quarter was due mainly to fair value adjustment.

**B3. Commentary on prospects**

The new Government after general election on 9 May 2018 has announced numerous prudent measures to tackle the country's debt level, from reviewing and scrapping large infrastructure projects that will bring no economic benefit to the nation. The cost cutting pursuit is largely aimed at streamlining the national expenditure and improving the federal government's fiscal health. Nevertheless, the secured and on-going construction works of the Company will continue to contribute positively to the Group's revenue and profitability despite lesser lucrative contracts will be dished out by the new Government in the near term.

The reintroduction of the Sales and Services Tax (SST) in September 2018 has stabilized prices of goods in general and is likely to stimulate purchasing power and consumption, which would yield a multiplier effect in the economy and eventually spur business activities domestically.

The outlook for Malaysia appears to be promising as the new government sets to work to address some issues and problems that have held back Malaysia's long-term prospects and deterred foreign investment. There is better clarity and the market is poised for growth.

Based upon the above, the outlook of the local construction sector is promising and will benefit the industry players. For the property development segment, we expect that there will be a period of adjustment and consolidation to clear existing stock before an uptrend can be seen. Nevertheless, due to a clearer economic and political direction, certain developers may still implement projects that they had planned or announced earlier.

The Board of Directors is optimistic about the Group's ability to continue to achieve satisfactory performance for the financial year ending 31 August 2019.

**B4. Variance of actual and forecast profit**

The Group did not issue any forecast for the current quarter and therefore this is not applicable.

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**B5. Corporate proposal**

There are no corporate proposals announced as at the date of this report except as follows:

On 15 April 2016, Bayu Melati Sdn Bhd (“BMSB”), a wholly-owned subsidiary of the Company had entered into a conditional sale and purchase agreement with Aturan Utama Sdn Bhd to acquire three (3) parcels of leasehold land held under H.S.(D) 54886, 54887 and 54888 for PT No. 4505, 4506 and 4507, Mukim Bandar Selayang, District Gombak, State of Selangor (“Land”) for an aggregate purchase price of RM77,735,849 (“Purchase Price”). In the event that the requisite planning approval for BMSB’s proposed commercial development on the Land includes a condition requiring BMSB to build low cost and/or affordable homes under whatever name known including under the affordable housing scheme currently known as “Rumah SelangorKu”, the Purchase Price for the Land shall be reduced to RM70,000,000 only (“Proposed Acquisition”).

On 7 September 2017, the Company at an Extraordinary General Meeting had obtained shareholders’ approval of the Proposed Acquisition. The completion of the Proposed Acquisition is still subject to and conditional upon the conditions precedent being fulfilled.

**B6. Income tax expense**

	<b>Current Quarter 30 November 2018 RM’000</b>	<b>Current Period To-Date 30 November 2018 RM’000</b>
Current tax expense	383	383
Deferred tax expense	-	-
<b>Total</b>	<b>383</b>	<b>383</b>

The tax expense for the current quarter and current period to-date is derived based on management’s best estimate of the tax rate for the financial period.

**B7. Group borrowings**

There were no other borrowings and debts securities in the Group as at 30 November 2018, except as disclosed below:-

	<b>30 November 2018</b>		<b>30 November 2017</b>	
	<b>Short term RM’000</b>	<b>Long term RM’000</b>	<b>Short term RM’000</b>	<b>Long term RM’000</b>
<b>Secured</b>				
Hire-purchase	281	182	298	62
Term loan	18,476	757	734	1,191
	<b>18,757</b>	<b>939</b>	<b>1,032</b>	<b>1,253</b>

**B8. Off balance sheet financial instruments**

There are no financial instruments with off balance sheet risk as at the date of this report.

**B9. Material litigation**

As at the date of this announcement, there are no material litigations against the Group or taken by the Group.

**B10. Dividends**

No dividend has been declared for the current quarter under review.

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**B11. Notes to the Statement of Comprehensive Income**

The profit for the period has been arrived at after crediting/(charging):-

	<b>Current Quarter 30 November 2018 RM'000</b>	<b>Current Period To-Date 30 November 2018 RM'000</b>
Interest income	59	59
Other income including investment income	204	204
Reversal of impairment losses	76	76
Impairment losses	(23)	(23)
Interest expenses	(229)	(229)
Depreciation and amortisation	(104)	(104)

Save as disclosed above, the other items as required under Appendix 9B, Part A (16) of the Bursa Malaysia Listing Requirements are not applicable.

**B12. Earnings per share**

(a) Basic earnings per share

Basic earnings per share for the current quarter and financial period to-date are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares in issue, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

	<b>Current quarter 30/11/18</b>	<b>Preceding year corresponding quarter 30/11/17 (Restated)</b>	<b>Current period To-date 30/11/18</b>	<b>Preceding year corresponding period to-date 30/11/17 (Restated)</b>
Profit attributable to owners of the parent (RM)	571,456	618,172	571,456	618,172
Number of ordinary shares ('000)	119,169	119,346	119,169	119,346
Weighted average number of ordinary shares ('000)	119,169	119,366	119,169	119,366
Basic earnings per share (sen)	0.48	0.52	0.48	0.52

(b) Diluted earnings per share

The Group does not have any convertible shares or financial instruments for the current quarter and financial period to-date.

By Order of the Board

**Wong Youn Kim**  
**Chan Chee Yean**  
 Company Secretaries  
 Kuala Lumpur  
 25 January 2019