

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	1,328,271	129,512,832
Retained earnings	165,181,161	1,328,271	166,509,432

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
Revenue	287,848,922	(1,779,104)	286,069,818
Other expenses	7,989,576	(320,240)	7,669,336

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:

The shares repurchased are being held as treasury shares in accordance with the requirement of Section 127 of the Companies Act, 2016. As at 31 May 2019, 1,290,800 ordinary shares have been purchased for RM949,950 including the transaction costs.

A7. **Dividend paid**

A first and final single tier dividend of 1.0 sen per ordinary share amounting to RM1,187,096 in respect of the financial year ended 31 August 2018 has been paid on 19 March 2019.

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A8 **Segmental reporting**

31 May 2019

REVENUE	Construction RM'000	Trading RM'000	Property Development RM'000	Others RM'000	Consolidated RM'000
Total revenue	133,758	8,409	1,560	-	143,727
Inter-segment revenue	-	-	-	-	-
Revenue from external customer	133,758	8,409	1,560	-	143,727
RESULT					
Segment results	4,571	179	(609)	204	4,345
Finance costs	(1,162)	-	(56)	-	(1,218)
Interest income	139	3	31	14	187
Profit/(loss) before tax	3,548	182	(634)	218	3,314
Tax expense	(2,081)	(34)	-	(7)	(2,122)

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 31 May 2019 are as follows:

	RM'000
Secured:	
Guarantees given to financial institutions on credit facilities granted to subsidiaries	182,210
Unsecured:	
Guarantees given to a third parties for performance in the development agreement granted to a subsidiary	3,858
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	7,500
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
	455,609

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A12. **Commitments**

There was no capital commitment in the financial period ended 31 May 2019, except as disclosed below:

	RM
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 31 May 2019 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:

	RM
Cash and bank balances	2,963,781
Fixed deposits with licensed banks	28,301,486
	<u>31,265,267</u>
Less:	
Deposits pledged with financial institution	<u>(2,092,459)</u>
	<u>29,172,808</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)	
	31/05/2019 RM '000	31/05/2018 RM '000		31/05/2019 RM '000	31/05/2018 RM '000	
Revenue	39,631	125,766	(69)	143,727	216,784	(34)
Operating Profit/(Loss)	2,200	(867)	354	3,974	1,034	284
Profit/(Loss) Before Interest and Tax	1,665	(884)	288	4,532	981	362
Profit/(Loss) Before Tax	1,053	(913)	215	3,314	897	270
Profit/(Loss) After Tax	308	(949)	132	1,192	88	1254
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent	308	(949)	132	1,192	88	1255

For the financial period ended 31 May 2019, the Group achieved revenue of RM143.726 million and profit before tax of RM3.314 million as compared to RM216.784 million and RM0.897 million respectively for the preceding year corresponding period. The effect on adoption of new MFRSs have resulted a loss before tax in preceding year corresponding quarter.

The increased in profit before tax of the Group in the current financial period as compared to the preceding year corresponding period was due mainly to lower rectification cost incurred for the completed properties. The higher revenue in preceding year corresponding period was due mainly to inventories sold.

Detailed analysis of the performance for the respective operating business segments for the period ended 31 May 2019 is as follows:

Construction

The Group recorded revenue of RM133.758 million and profit before tax of RM3.548 million as compared to the preceding year corresponding period of RM120.653 million and RM2.945 million respectively. The increased of profit before tax was in line with the increased in revenue. This was mainly attributed from the construction of office tower at Jalan Conlay, Kuala Lumpur and “Perumahan Penjawat Awam Malaysia” (“PPAM”) project in Sentul.

Property development

The Group recorded revenue of RM1.560 million and a loss before tax of RM0.634 million as compared to the preceding year corresponding period revenue of RM73.039 million and RM2.470 million respectively. The higher revenue in preceding year corresponding period was due mainly to inventories sold. The loss before tax in this segment was due mainly to cost of rectification works for completed properties and operating expenses incurred.

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Trading

The Group recorded revenue of RM8.409 million and profit before tax of RM0.182 million as compared to the preceding year corresponding period of RM23.092 million and RM0.709 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.

B2. Comparison with preceding quarter results

Financial review for current quarter compared with immediate preceding quarter

	Current Quarter	Immediate Preceding Quarter (Restated)	Changes (%)
	31/05/2019 RM '000	28/02/2019 RM '000	
Revenue	39,631	63,646	(37)
Operating Profit	2,200	1,438	53
Profit Before Interest and Tax	1,665	1,684	(1)
Profit Before Tax	1,053	1,307	(19)
Profit After Tax	308	312	(1)
Profit Attributable to Ordinary Equity Holders of the Parent	308	312	(1)

For the current quarter under review, the Group recorded a profit before tax of RM1.053 million as compared to RM1.307 million in the immediate preceding quarter. The lower profit before tax in the current financial quarter as compared to the immediate preceding quarter was due mainly to share of loss of a joint venture in current quarter.

B3. Commentary on prospects

The Government 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 dishd out by the Government in the near term.

Nevertheless, the outlook for Malaysia appears to be promising as the 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 proactive measure implemented by the Kementerian Perumahan dan Kerajaan Tempatan such as Home Ownership Campaign, 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

	Current Quarter 31 May 2019 RM’000	Current Period To-Date 31 May 2019 RM’000
Current tax expense	767	1,797
(Over)/Under provision in prior year	(22)	325
	745	2,122
Deferred tax expense	-	-
Total	745	2,122

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. The effective tax rate of the Group was higher than the statutory tax rate due mainly to business losses of certain subsidiaries and under provision of tax in prior year.

B7. Group borrowings

There were no other borrowings and debts securities in the Group as at 31 May 2019, except as disclosed below:-

	31 May 2019		31 May 2018	
	Short term RM’000	Long term RM’000	Short term RM’000	Long term RM’000
Secured				
Hire-purchase	340	185	286	315
Term loan	22,002	790	533	1,191
	22,342	975	819	1,506

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):-

	Current Quarter 31 May 2019 RM'000	Current Period To-Date 31 May 2019 RM'000
Interest income	88	187
Other income including investment income	203	932
Reversal of impairment losses	-	110
Impairment losses	(10)	(23)
Interest expenses	(611)	(1,218)
Depreciation and amortisation	(127)	(329)

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.

	Current quarter 31/05/19	Preceding year corresponding quarter 31/05/18 (Restated)	Current period To-date 31/05/19	Preceding year corresponding period to-date 31/05/18 (Restated)
Profit/(Loss) attributable to owners of the parent (RM)	308,469	(948,890)	1,192,105	87,634
Number of ordinary shares ('000)	118,710	119,206	118,710	119,206
Weighted average number of ordinary shares ('000)	118,710	119,267	118,917	119,326
Basic earnings/(loss) per share (sen)	0.26	(0.80)	1.00	0.07

(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
 29 July 2019