

A Explanatory Notes in compliance with Malaysian Financial Reporting Standards (“MFRS”) 134, Interim Financial Reporting

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134: Interim Financial Reporting and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa").

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2019. These explanatory notes attached to the interim 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 year ended 31 December 2019.

A2. Changes in Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in the consolidated financial statements for the financial year ended 31 December 2019.

The following are accounting standards, amendments and interpretations that have been issued by the Malaysian Accounting Standards Board (“MASB”) effective on 1 January 2020.

Title	Effective Date
<i>Amendments to References to the Conceptual Framework in MFRS Standards</i>	1 January 2020
<i>Amendments to MFRS 3 Definition of a Business</i>	1 January 2020
<i>Amendments to MFRS 101 and MFRS 108 Definition of Material</i>	1 January 2020
<i>Amendments to MFRS 9, MFRS 139 and MFRS 7 Interest Rate Benchmark Reform</i>	1 January 2020

The Group does not expect the adoption of the above Standards to have a significant impact on the financial statements.

A3. Qualification of Financial Statements

The auditors’ report for the preceding audited financial statements was not subject to any qualification.

A4. Seasonal or Cyclical Factors

The Group’s operations were not materially affected by any seasonal or cyclical factors.

A5. Nature and Amount of Unusual Items

There were no unusual items for the current quarter and financial year-to-date.

A6. Nature and Amount of Changes in Estimates

There were no changes in estimates of amounts in the prior financial years that have a material effect in the current quarter and financial year-to-date.

A7. Issuance and Repayment of Debt and Equity Securities

There were no issuance and repayments of debt and equity securities, share buy-backs, share cancellations and shares held as treasury shares for the current quarter.

As at the end of the current quarter and financial year-to-date, a total of 1,427,468 shares were held as treasury shares.

A8. Dividend Paid

There is no dividend payment in current quarter.

A9. Segmental Information

The Company and its subsidiaries are principally engaged in construction, property development and investment holding.

The Company has arrived at two (2) reportable segments that are organised and managed separately according to the nature of products and services, specific expertise and technologies requirements, which require different business and marketing strategies. The reportable segments are summarised as follows:

(i) Construction

Securing and carrying out construction contracts.

(ii) Property development

Development of residential and commercial properties.

Other operating segments that do not constitute a reportable segment comprise investment holding.

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

A9. Segmental Information (Cont'd)

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by segment:

3 months ended 31 March 2020	Property			Inter-segment	Total RM'000
	Construction RM'000	Development RM'000	Other RM'000	Elimination RM'000	
Segment Revenue					
External	73,276	739	2,838	-	76,853
Inter-segment	21,902	-	1,609	(23,511)	-
Total revenue	95,178	739	4,447	(23,511)	76,853
Interest income	1,130	25	211	(695)	671
Finance cost	(802)	(511)	(489)	769	(1,033)
Net finance expense	328	(486)	(278)	74	(362)
Segment profit/(loss) before taxation	5,951	(802)	1,440	(632)	5,957
Share of profit of an associate	118	-	-	-	118
Share of profit of a joint venture	-	-	143	-	143
Taxation	(1,261)	-	(458)	(116)	(1,835)
Segment profit/(loss) after taxation	4,690	(802)	982	(748)	4,122
Other material non-cash item:					
- Depreciation	(1,325)	(161)	(499)	367	(1,618)
Additions to non-current assets other than financial instruments and deferred tax assets					
	646	41	1	-	688
Segment assets	1,069,950	546,005	428,558	(590,028)	1,454,485
Segment liabilities	799,030	415,079	37,363	(316,367)	935,105
3 months ended 31 March 2019					
	Property			Inter-segment	Total RM'000
	Construction RM'000	Development RM'000	Other RM'000	Elimination RM'000	
Segment Revenue					
External	70,068	13,440	2,838	-	86,346
Inter-segment	12,293	-	1,898	(14,191)	-
Total revenue	82,361	13,440	4,736	(14,191)	86,346
Interest income	291	11	101	-	403
Finance cost	(662)	(288)	(343)	-	(1,293)
Net finance expense	(371)	(277)	(242)	-	(890)
Segment profit/(loss) before taxation	7,541	3,957	1,641	(376)	12,763
Share of loss of an associate	52	-	-	-	52
Share of profit of a joint venture	-	-	62	-	62
Taxation	(1,350)	(835)	(476)	908	(1,753)
Segment profit after taxation	6,191	3,122	1,165	532	11,010
Other material non-cash item:					
- Depreciation	(2,720)	(20)	(373)	67	(3,046)
Additions to non-current assets other than financial instruments and deferred tax assets					
	32	4	6	-	42
Segment assets	947,043	518,780	504,327	(565,310)	1,404,840
Segment liabilities	738,116	303,416	99,812	(228,100)	913,244

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

A10. Valuation of Property, Plant and Equipment

There is no valuation of property, plant and equipment performed in the current quarter and financial year-to-date.

A11. Acquisition/Disposal of Property, Plant and Equipment

There was no material acquisition or disposal of property, plant and equipment during the current quarter and financial year-to-date.

A12. Material Subsequent Event

There were no material events subsequent to the end of the current quarter under review up to the date of this report which is likely to substantially affect the results of the operations of the Group.

A13. Changes in the Composition of the Group

There were no changes to the composition of the Group for the current quarter.

A14. Capital Commitment

	As at 31 Mar 20 RM'000	As at 31 Dec 19 RM'000
Contracted but not provided for:		
- Freehold land held under development	<u>688</u>	<u>688</u>

A15. Contingent Liabilities

	As at 31 Mar 20 RM'000	As at 31 Dec 19 RM'000
Bank guarantees given by financial institutions in respect of construction and property projects	<u>156,928</u>	<u>205,506</u>

B Explanatory Notes in Compliance with listing Requirements of the Bursa Malaysia

B1. Review of Performance

Performance of current quarter against the preceding year corresponding quarter

Group

	Individual Period (1 st Quarter)		Changes (%)
	Current Year Quarter	Preceding Year Corresponding Quarter	
	31/03/2020	31/03/2019	
	RM'000	RM'000	
Revenue	76,853	86,346	(10.99)
Profit Before Tax	5,957	12,763	(53.33)
Profit After Taxation	4,122	11,010	(62.56)

During the current quarter, the Group recorded revenue of RM76.9 million, a 10.99% decrease compared to the preceding year quarter of RM86.3 million. During preceding year quarter, the property development segment reversed the overprovision of LAD for The Peak project.

Our reported PAT stood at RM4.1 million or 0.79 sen per share in 1Q20 compared to RM11.0 million or 2.31 sen in 1Q19. The decline is mainly due to the abovementioned reversal of overprovision of LAD for The Peak that was adjusted in the preceding year quarter.

Construction segment:

The construction division reported an increase in revenue of RM95.2 million in 1Q20 compared to RM82.4 million in 1Q19. During the current quarter the work progress of the in-house projects, The Peak and EIsland Lake Haven have contributed to the increase in construction revenue.

However, the construction division reported profit before tax of RM5.9 million in the current quarter, a 21% decrease compared to RM7.5 million for the preceding year quarter. The decrease is due to the profit margin for the in-house projects is much lower as compared to external projects. The work progress for external projects during the current quarter is lower compared to the preceding year quarter.

Property development segment:

The property development division reported a lower revenue and loss before tax of RM0.7 million and RM0.8 million in 1Q20 compared to RM13.4 million and RM3.9 million in the preceding year quarter. The decrease in revenue and profit before tax is due to lower work progress on The Peak project compared to the preceding year quarter. The reversal of the overprovision of LAD for The Peak project which contributed to the higher turnover and profit before tax for the preceding year quarter.

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

B2. Material Changes in the Result for the Current Quarter Compared with the Results for the Preceding Quarter

	Current Quarter	Immediate Preceding Quarter	Changes (%)
	31/03/2020	31/12/2019	
	RM'000	RM'000	
Revenue	76,853	80,857	(4.95)
Profit After Taxation ('PAT')	4,122	3,432	20.12

The Group's revenue for the current quarter of RM76.8 million is 4.9% lower compared to the immediate preceding quarter of RM80.9 million. The decrease in revenue is due to lower work progress achieved in the current quarter for construction segment. Our Construction Segment is the main driver of revenue and PBT. Due to the Movement Control Order (MCO) effected on 18/3/2020, construction sites being not considered as essential service had to cease operations which resulted in the lower results of both revenue and PBT. However, the Group's PAT increased by 20.12% as compared to the RM3.4 million registered during the preceding quarter. The increase in PAT is due to an improvement in operating expense by 23.8% when compared between the current quarter and the immediate preceding quarter.

B3. Prospects

The Group is prepared to face the global and local economic crisis, which has contributed to the slowdown in the domestic construction sector, and only anticipate a recovery in the second-half of 2021. Presently, the Group's current businesses would be able to generate revenues of RM2.8 billion up to FYE 2024 – RM1.7 billion from our outstanding construction orderbook, RM1.1 billion ongoing property development GDV and RM56.0 million in recurring rental income from our basecamp.

In forecasting the slowdown in the construction sector, in 4Q19, we have taken the necessary steps to further improve our business fundamentals, in particular, operating costs. In January 2020, we initiated the plans to further strengthen the position of the Group to weather through a recessionary period. The focus of our plans includes enhancing our operational efficiency; ensuring cashflow generation and conservation is well-planned; and reassessment of project costs to protect or improve margins. All of these measures would allow us to ride through the economic downturn.

Thus far, the steps taken to reduce operating costs has been successful, evidenced by the 55.0% or RM6.6 million reduction in total operating costs in 1Q20, compared to the average quarterly total operating cost of RM11.9 million reported in FYE 2019. For the full-year of FYE 2020, we are targeting for our total operating costs to reduce by 40% compared to FYE 2019. With these strategies that have been put in place since January 2020, we have created a strong group that would able to overcome this economic headwinds up to 2021.

As at 31 March 2020, the Group has a total debt of RM278.2 million, backed by RM127.2 in cash, representing a net gearing ratio of 0.29x. About 77.2% of the debts that we have today is project-financing related and would be fully-paid towards the completion of the projects. Additionally, 2.3% of the total debts carried by the group is related to our rental-generating basecamp facility in Sipitang, which will be fully-paid by October 2020.

(a) Construction division

The Group's construction division is armed with an outstanding orderbook of RM1.7 billion, would enable it to weather though the turbulent economic recession period between 2020-2021, whilst sustaining income up to FYE 2023. Moreover, a bulk of our clients and projects are government-related, eliminating the non-payment risk.

B3. Prospects (Cont'd)

(a) Construction division (Cont'd)

We practice an asset light strategy when it comes to machineries and equipment to execute our construction jobs. As a result of the slowdown in the economy and the construction sector, we have initiated negotiations with our subcontractors and further lower our operational costs. Last year, we also took the opportunity to offload a 400-tonne crane, one of the largest in the market, as we foresee that demand of such equipment will dwindle and a right move given the current market conditions.

We will only focus on new projects that would add value based on our current track record and would not place the group in any unnecessary risks. Future jobs have to meet strict operating and financial measures, including being value creating with a healthy generation of cashflows to the Group.

Our strong financial position and operational efficiency would be able to strategically place us in a position to be able to secure new projects by the Government, which amongst others include the revival of the mega rail-line projects including the KL-Singapore High Speed Rail and Mass Rapid Transit 3.

In addition to that, we have also submitted claims for completed past projects which accounts have been finalised but we yet to be paid by our clients. The total cash due to us totals RM45.0 million and would be able to further improve our cashflow position.

(b) Property Development Division

Revived on the 26 April 2019, the property development division is currently undertaking RM1.1 billion in Gross Development value, spread across three projects – E'Island Lake Haven in Puchong, The Peak in Johor Bahru City Centre and Contours in Melawati Heights. These developments have a total combined GDV of RM1.1 billion and has total long-term borrowings of RM15.1 million, representing a long-term debt to GDV ratio of only 1.4%. Since the relaunch of the property development arm, we have achieved RM95.6 million in new property sales with an additional RM34.1 million bookings that are in the process of being converted into sales.

Our move to digitalise the sales and marketing of our property developments by introducing virtual-reality show units for prospective buyers to visualise their potential purchases has been a proven marketing tool to market our product, particularly during the MCO period. Our efforts have been successful as we were able to clinch in RM22.5 million in new property bookings during the MCO period from 18 March 2020 to 21 June 2020. And for the past 3-weeks, the booking momentum for our E'Island Lake Haven has reached its pre MCO levels.

Additionally, the reintroduction of the new Home Ownership Campaign by the Government under the Penjana Short-term Economic Recovery Plan would be positive for our property development arm. The campaign, which runs from from 1 June 2020 to 31 May 2021 bodes well for all our ongoing property developments, including E'Island Lake Haven, The Peak and Contours Melawati Heights.

The slowdown in the local economy due to domestic and external headwinds will negatively impact the sentiment of the sector. We would not be adversely impacted by the headwinds as the property development division is lowly geared, allowing us to have greater flexibility in terms of timing of sales.

Currently, a bulk of the developments that are currently being offered are within the affordable range, with prices of E'Island Lake Haven starting only from RM268,000 per unit while The Peak, a freehold and commercial titled development, starts from RM520,000 per unit.

As at 31 March 2020, our unbilled sales stood at RM162.4 million.

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

B3. Prospects (Cont'd)

(c) Recurring Income

The Petronas Basecamp in Sipitang, is part of the Group's strategy to expand its recurring income base. Currently, we have an agreement with Petronas to provide "base-camp" facilities in Sipitang, Sabah for a tenancy period of 5+5 years, with the first 5-years is set to expire in 1Q21. As at 31 March 2020, 85% of the borrowings of RM40 million that we undertook to build the facility has been paid, and will be fully-paid by October 2020. The Group has formally commenced negotiations with Petronas to extend the agreement for another 5-years until 2026. This investment is expected to contribute a cumulative of RM56.0m in rental income for the Group over the next 5-years.

B4. Profit Forecast and Profit Estimate

The Group did not issue any profit forecast or profit estimate in any public document.

B5. Items included in the Statements of Comprehensive Income include:

	Current Quarter		Cumulative Quarter	
	3 months ended		3 months ended	
	31 Mar 20	31 Mar 19	31 Mar 20	31 Mar 19
	RM'000	RM'000	RM'000	RM'000
Interest income	671	403	671	403
Other income	363	184	363	184
Interest expense (excluding interest capitalised)	(1,033)	(1,293)	(1,033)	(1,293)
Depreciation and amortisation	(1,209)	(3,046)	(1,209)	(3,046)
Impairment losses of receivables	(123)	-	(123)	-
Provision for and write off of inventories	*	*	*	*
Property, plant and equipment written off	(3)	-	(3)	-
Gain on disposal of quoted investments	*	*	*	*
Foreign exchange gain or loss	*	*	*	*
Gain or loss on derivatives	*	*	*	*
Exceptional items	*	*	*	*

* There were no such reportable items as required by Bursa Securities in the current quarter and cumulative quarter to date.

B6. Taxation

	Current Quarter		Cumulative Quarter	
	3 months ended		3 months ended	
	31 Mar 20	31 Mar 19	31 Mar 20	31 Mar 19
	RM'000	RM'000	RM'000	RM'000
Current taxation				
- Current year	1,719	918	1,719	918
- Previous year	-	835	-	835
	1,719	1,753	1,719	1,753
Deferred taxation				
- Current year	116	-	116	-
- Prior years	-	-	-	-
	116	-	116	-
	1,835	1,753	1,835	1,753

The Group effective tax rate for the cumulative quarter of 30.8% is higher than the statutory rate mainly due to certain expenses not deductible for tax purposes.

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

B7. Status of Corporate Proposals Announced

There are no corporate proposals announced by the Company but not completed as at 19 June 2020, being the latest practicable date, which is not earlier than 7 days from the date of issuance of this interim financial report.

B8. Group Borrowings and Debt Securities

	As at 31 Mar 2020		
	Long term	Short term	Total
	RM'000	RM'000	borrowings
			RM'000
Secured			
- Term loan	16,544	21,958	38,502
- Revolving credit	-	2,000	2,000
- Bank overdrafts	-	231,897	231,897
	<u>16,544</u>	<u>255,855</u>	<u>272,399</u>
	As at 31 Mar 2019		
	Long term	Short term	Total
	RM'000	RM'000	borrowings
			RM'000
Secured			
- Term loan	30,277	10,621	40,898
- Hire purchase	3,357	1,497	4,854
- Revolving credit	-	2,000	2,000
- Bank overdrafts	-	162,580	162,580
	<u>33,634</u>	<u>176,698</u>	<u>210,332</u>

B9. Dividend

No dividend has been proposed by the Board of Directors for the current quarter ended 31 March 2020.

B10. Status of Memorandum of Understanding announced

Reference is made to the announcements dated 20 July 2017, 19 October 2017, 16 January 2018, 13 April 2018, 28 May 2018, 28 August 2018, 28 November 2018, 31 December 2018, 29 March 2019, 28 June 2019, 1 July 2019, 30 September 2019 and 31 December 2019 made by the Company pertaining to the MOU between the Company and Tera Capital.

The Company has worked closely with Tera Capital on the development components and products and finalized the Master Plan. The Board of Directors of the Company is pleased to update that the Development Plan has been submitted as scheduled to Dewan Bandaraya Kota Kinabalu (DBKK) on 14 December 2018. The Company has also completed the phase 1 site investigation (S.I.) works in April 2018 and shown positive results. Suria has granted access to the current ticketing hall for the commencement of Phase 2 S.I. works on 27 March 2019. The Phase 2 S.I. work is located at the proposed highest tower, the 4 Star hotel and spa. Phase 2 S.I. works has been completed by early May and the full report has been completed on 15 June 2019. The compilation of Phase 1 & 2 S.I. report will be submitted to DBKK as part of the requirement for full development plan approval.

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

B10. Status of Memorandum of Understanding announced (Cont'd)

In addition, the Company has submitted the updated Interim Development Plan (“IDP”) to Dewan Bandaraya Kota Kinabalu (“DBKK”) on 17 June 2019, IDP has been circulated to Central Planning Board (“CPB”) on 10 July 2019. All technical departments have received updated IDP on 1 August 2019. Site topography survey has commenced on 2 August 2019 and field work has been completed on 10 August 2019. The digital topography survey plan has been completed on 29 August 2019. CPB has received the feedbacks from all technical departments by 31 October 2019 and is currently listing the IDP to be tabled in next CPB meeting and final approval. These market further progress of milestones for development of One Jesselton Waterfront.

The Company and Tera Capital have mutually agreed to further extend the MOU on the collaboration of One Jesselton Waterfront Premier Lifestyle Mall and 4-Star Hotel until 30 June 2020.

The revised design of the premier lifestyle mall and 4-star hotel & spa has been completed, which incorporates strategic tenant requirements and integration of luxury and modern technology.

World Health Organization (WHO) has declared COVID-19 Public Health Emergency of International Concern on 30 January 2020 and was declared a pandemic on 11 March 2020. As announced by Prime Minister Tan Sri Muhyiddin bin Haji Muhammad Yassin, Movement Control Order that taken effect from 18 March 2020 has been extended to 14 April 2020.

Other countries in the world are also imposing lock down and this has affected our communications with professionals and partners from various countries. This has caused some delay in the progress of the development for the project. The Company is committed on the project and will speed up the process to catch up the delay once the Movement Control Order is lifted.

B12. Earnings Per Share

(a) Basic

The basic earnings per share are calculated by dividing the profit attributable to owners of the Company for the financial period by the weighted average number of ordinary shares in issue during the financial period under review.

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	31 Mar 20 RM'000	31 Mar 19 RM'000	31 Mar 20 RM'000	31 Mar 19 RM'000
Profit attributable to equity holders of the Company (RM'000)	3,921	11,256	3,921	11,256
Number of shares at the beginning of the year ('000)	493,429	477,579	493,429	477,579
Share resale	-	2,219	-	2,219
Share repurchase	-	-	-	-
Warrants conversion	-	-	-	-
Dividend issue by shares	-	7,680	-	7,680
Weighted average number of ordinary shares ('000)	493,429	487,478	493,429	487,478
Basic earnings per share (sen)	0.79	2.31	0.79	2.31

GABUNGAN AQRS BERHAD
(Company No: 201001028608 (912527-A))
(Incorporated in Malaysia)
Quarterly Unaudited Results of the Group for the First Quarter ended 31 March 2020

B12. Earnings Per Share (Cont'd)

(b) Diluted

Diluted earnings per share are calculated by dividing the profit for the year, net of tax, attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year after adjustment for the effects of dilutive potential ordinary shares, calculated as follows:

	Current Quarter 3 months ended		Cumulative Quarter 3 months ended	
	31 Mar 20 RM'000	31 Mar 19 RM'000	31 Mar 20 RM'000	31 Mar 19 RM'000
Profit attributable to equity holders of the Company (RM'000)	3,921	11,256	3,921	11,256
No of ordinary shares for basic earnings per share computation	493,429	487,478	493,429	487,478
Effect of dilution - on assumption that remaining warrants are exercised	119,395	119,395	119,395	119,395
Weighted average number of ordinary shares ('000)	612,824	606,873	612,824	606,873
Diluted earnings per share (sen)	0.64	1.85	0.64	1.85

B13. Authorisation for Issue

This interim financial report was authorised for issue by the Board of Directors.