

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 1,165,744 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.

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A9. Segmental Information (Cont'd)

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

9 months ended 30 September 2020	Construction RM'000	Property Development RM'000	Other RM'000	Inter-segment Elimination RM'000	Total RM'000
Segment Revenue					
External	86,166	13,310	8,515	-	107,991
Inter-segment	26,261	1,601	4,799	(32,661)	-
Total revenue	112,427	14,911	13,314	(32,661)	107,991
Interest income	3,171	87	676	(2,105)	1,829
Finance cost	(2,134)	(1,578)	(1,420)	2,311	(2,821)
Net finance expense	1,037	(1,491)	(744)	206	(992)
Segment profit/(loss) before taxation	(28,962)	(35,130)	4,419	(3,676)	(63,349)
Share of profit of an associate	175	-	-	-	175
Share of profit of a joint venture	-	-	332	-	332
Taxation	(25)	183	(1,545)	78	(1,309)
Segment profit/(loss) after taxation	(29,987)	(34,947)	2,873	(3,597)	(65,658)
Other material non-cash item:					
- Depreciation	(3,922)	(399)	(1,499)	1,102	(4,718)
Additions to non-current assets other than financial instruments and deferred tax assets					
	2,163	41	2	-	2,206
Segment assets	959,267	563,762	422,422	(565,170)	1,380,281
Segment liabilities	722,024	465,680	29,336	(287,215)	929,825
9 months ended 30 September 2019					
	Construction RM'000	Property Development RM'000	Other RM'000	Inter-segment Elimination RM'000	Total RM'000
Segment Revenue					
External	309,464	15,150	8,516	-	333,130
Inter-segment	(33,938)	(773)	(6,778)	41,489	-
Total revenue	275,526	14,377	1,738	41,489	333,130
Interest income	975	19	211	-	1,205
Finance cost	(2,009)	-	(1,090)	-	(3,099)
Net finance expense	(1,034)	19	(879)	-	(1,894)
Segment profit/(loss) before taxation	45,265	(632)	1,995	(644)	45,984
Share of loss of an associate	120	-	-	-	120
Share of profit of a joint venture	-	-	298	-	298
Taxation	(12,715)	79	(828)	937	(12,527)
Segment profit after taxation	32,550	(553)	1,166	294	33,457
Other material non-cash item:					
- Depreciation	(6,387)	(55)	(1,118)	201	(7,359)
Additions to non-current assets other than financial instruments and deferred tax assets					
	1,606	318	25	-	1,949
Segment assets	1,038,021	551,619	530,158	(625,358)	1,494,440
Segment liabilities	829,727	415,542	147,450	(417,502)	975,217

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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 30 Sept 20 RM'000	As at 31 Dec 19 RM'000
Contracted but not provided for:		
- Freehold land held under development	<u>298</u>	<u>688</u>

A15. Contingent Liabilities

	As at 30 Sept 20 RM'000	As at 31 Dec 19 RM'000
Bank guarantees given by financial institutions in respect of construction and property projects	<u>156,782</u>	<u>205,506</u>

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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 (3 rd Quarter)		Changes (%)	Cumulative Period		Changes (%)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To-date	Preceding Year Corresponding Period	
	30/9/2020	30/9/2019		30/9/2020	30/9/2019	
	RM'000	RM'000		RM'000	RM'000	
Revenue	84,405	118,793	(28.95)	107,991	333,130	(67.58)
Profit Before Tax	5,292	16,463	(67.85)	(63,349)	45,984	(237.77)
Profit After Taxation	5,265	11,344	(53.58)	(64,658)	33,457	(293.26)

During the current quarter, the Group recorded revenue of RM84.4 million, a 29.0% decrease compared to the 3Q19 of RM118.8 million. The decrease in Group revenue is mainly due to the lower progress of work undertaken. As a result of the abovementioned, our reported PAT declined by 53.6% to RM5.3 million or 1.01 sen per share in 3Q20, compared to RM11.3 million or 2.31 sen per share in 3Q19.

Construction segment:

The construction division reported a revenue and profit after tax of RM50.9 million and RM2.4 million in 3Q20, compared to RM128.7 million and RM19.3million in 3Q19 respectively. The decline in revenue and profit after tax is mainly due to the lower progress of work undertaken. Upon the lifting of the MCO, the Group began construction site work activities in mid-June 2020, and progress has been on an uptrend, and we have in 3Q20, achieved a normalised speed of activity.

Property development segment:

The property development division reported the revenue and profit after tax of RM33.5 million and RM3.9 million in 3Q20 compared to the negligible revenue and loss after tax of RM2.0 million in 3Q19. The increase in revenue and profit after tax is due to contributions from its ongoing projects, E'island Lake Haven and The Peak.

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

	Current Quarter	Immediate Preceding Quarter	Changes (%)
	30/09/2020	30/06/2020	
	RM'000	RM'000	
Revenue	84,405	(53,267)	258.46
Profit After Taxation ('PAT')	5,265	(74,046)	107.11

The Group's revenue for the current quarter of RM84.4 million is 258.5% higher compared to the immediate preceding quarter of negative RM53.3 million. The increase in revenue due to 2Q20 has recognition of impairment loss and repricing of completed inventories. The Group reported profit after tax of RM5.3 million in 3Q20, compared to a loss after tax of RM74.0 million in the immediate preceding quarter, as a result of the abovementioned reasons.

B3. Prospects

Based on its current businesses, the Group has a total of RM2.3 billion in future gross revenue to be recognised, which will provide earnings and cashflow visibility up to FYE 2024, on total borrowings of RM259.7 million (Long-term: RM16.5 million, Short-term: RM243.2 million) and cash of RM131.2 million. As such, over the following quarters leading up to FYE 2024, we anticipate that revenue, earnings and cashflow generation is expected to improve. Presently, the construction and property development divisions' balance cash collection to be received stands at RM1.4 billion and RM0.9 billion respectively.

The Group's construction division has achieved its rate of activities at pre-MCO levels. Our construction sites observe strict precautionary measures, abiding to the SOP requirements by the authorities to prevent the spread of Covid-19.

Our property development division has been receiving encouraging response, proven by the value of SPA that has been signed. In 2Q19, we had a total of 1,645 property units for sale worth RM1.1 billion. As at 15 November 2020, we have signed 454 units of SPAs worth RM270.6 million, representing 27.6% of total units launched. We anticipate that by the year end, we would be able to cumulatively sign approximately 500 units of SPAs, representing an overall divisional take-up rate of 30.4%. Additionally, we have 148 units of properties worth RM92.3 million that has been booked, and are in the process of sales conversion.

We are on track to reduce our operating cost by 40% this year. In 3Q20, our operating cost stood at RM7.8 million, down by 39.3% year-on-year. For the first 9-months of 2020, our total operating cost stood at RM19.6 million, representing savings of RM13.2 million or 40.2% compared to the 9-months of 2019. Additionally, the Group's total cash reserves stood at RM132.4 million, rising by 2.0% or RM2.6 million compared to 2Q20.

Overall, we would continue to monitor our operating expenses to further improve our profit margins and build up our cash reserves. These two primary measures would ensure that the business remains resilient. Stemming from our existing businesses, we anticipate that our future earnings and dividend payout will progressively increase.

B3. Prospects (Cont'd)

(a) Construction division

The Group's construction division is armed with a healthy outstanding orderbook of RM1.3 billion, that will sustain earnings and cashflow contribution up to FYE 2023.

In October 2020, we signed the Articles of Agreement with MRCB George Kent (MRCB) in relation to our GS04 Light Rail Transit 3 (LRT3) construction package. Both partners has agreed to omit the provisional contract sum, the prime cost sum and the Temasya Station; reduce the scope of work for the Glenmarie and Stadium stations; and agreed to the lump sum contract of RM709.8 million following our cost optimisation proposal.

Based on our experience, capabilities and resources, we see opportunities from potential projects that have been announced by the Government. We would seek opportunities in infrastructure projects in Peninsula Malaysia, including the KL – Singapore High Speed Rail (HSR) and Mass Rapid Transit 3 (MRT3); and in Sabah, the Pan Borneo Highway Sabah, together with our joint-venture partner. As for building jobs, the planned rollout of new hospital projects would be potential projects that we would be on the lookout for.

(b) Property Development Division

Since the revival of our property development division in 2Q19, which is armed with a GDV of RM1.1 billion, we have, up to 17 November 2020, achieved RM270.6 million in property sales, with an additional RM92.3 million worth of bookings that are in the process of being converted into sales. As at 30 September 2020, our unbilled property sales stood at RM213.0 million.

As per to our announcement in 2019, we will allocate a portion of net cash proceeds from the sale of our property developments as dividends to shareholders. As such, the Group had declared 1.0 sen in interim dividend, utilising part of the net cashflow proceeds from the property development sales.

Policies announced by the Government will benefit our property development division. The all-time low OPR rate, leading to lower mortgage financing rates has given rise to interest in our developments. Aside that, the proposal in Budget 2020 for a stamp duty exemption for the memorandum of transfer and loan agreements for homes worth up to RM500,000 is a direct positive for us, as a bulk of our properties that are for sale is below the mark. In Johor Bahru, the announcement of the RTS and HSR will increase the attractiveness of The Peak, given its central-location, freehold and commercial-titled status.

The property development division currently has a total unbilled (sold and unsold properties) GDV of RM845.4 million, which is expected to generate operating cashflows of RM418.1 million, after taking into account the construction costs and repayment of borrowings. From April 2019 to 17 November 2020, we have recorded a divisional take-up rate of 27.6%. While we foresee that the properties may potentially be fully-sold by FYE 2023, we target for the properties to be fully taken-up by FYE 2024; and will be key future earnings and cashflow growth.

(c) Recurring Income

The Petronas Basecamp in Sipitang, is part of the Group's strategy to expand its recurring income base. The Group has fully-repaid the borrowings of RM40 million in October 2020.

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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		9 months ended	
	30 Sept 20	30 Sept 19	30 Sept 20	30 Sept 19
	RM'000	RM'000	RM'000	RM'000
Interest income	492	338	1,829	1,205
Other income	1,632	1,604	2,736.75	5,349
Interest expense (excluding interest capitalised)	(912)	(1,051)	(2,821)	(3,099)
Depreciation and amortisation	(1,566)	(2,129)	(4,718)	(7,359)
Impairment losses of receivables	-	-	(123)	-
Provision for and write off of inventories	*	*	*	*
Property, plant and equipment written off	-	-	(4)	(23)
Gain/(loss) on disposal of property, plant and equipment	-	2	80	2
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		9 months ended	
	30 Sept 20	30 Sept 19	30 Sept 20	30 Sept 19
	RM'000	RM'000	RM'000	RM'000
Current taxation				
- Current year	388	5,470	1,570	12,849
- Previous year	(183)	(338)	(183)	(292)
	205	5,132	1,387	12,556
Deferred taxation				
- Current year	(178)	(13)	(78)	(29)
- Prior years	-	-	-	-
	(178)	(13)	(78)	(29)
	27	5,119	1,309	12,527

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

B7. Status of Corporate Proposals Announced

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

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B8. Group Borrowings and Debt Securities

	As at 30 September 2020		
	Long term RM'000	Short term RM'000	Total borrowings RM'000
Secured			
- Term loan	16,458	16,925	33,383
- Revolving credit	-	2,000	2,000
- Bank overdrafts	-	224,281	224,281
	<u>16,458</u>	<u>243,206</u>	<u>259,664</u>
	As at 30 September 2019		
	Long term RM'000	Short term RM'000	Total borrowings RM'000
Secured			
- Term loan	24,801	10,966	35,767
- Hire purchase	2,808	1,581	4,389
- Revolving credit	-	2,000	2,000
- Bank overdrafts	-	215,129	215,129
	<u>27,609</u>	<u>229,676</u>	<u>257,285</u>

B9. Dividend

The Board of Directors has approved and declared an interim dividend of 1.0 sen per ordinary share tax exempt under single-tier tax system amounting to RM4.9 million in respect of the current quarter ended 30 September 2020.

B10. Material litigation

- (a) On 15 September 2020, Gabungan AQRS Berhad ("GAB") and Trusvest Sdn Bhd ("TVSB"), commenced legal proceedings against the former Executive Director and Group Chief Financial Officer for the Gabungan AQRS Group of Companies, Bernard Lim Soon Chiang ("Bernard"), in the High Court at Shah Alam.

GAB and TVSB's case is that Bernard had acted negligently and / or in breach of his service contract with GAB as its Chief Financial Officer, by, amongst others, failing, refusing and / or neglecting to give proper tax advice and / or properly consult a tax consultant on the tax implications of a project to construct, own and subsequently sublease base-camp accommodation to Petronas Chemicals Fertiliser Sabah Sdn Bhd at Sipitang, Sabah ("Sipitang Project"). The Sipitang Project was awarded to TVSB by a consortium comprising Seri Wilayah Engineering Sdn Bhd and REMT Utama Sdn Bhd. TVSB in turn awarded the construction works to a subsidiary of GAB, Gabungan Strategik Sdn Bhd. GAB and TVSB also allege that :-

- (i) Bernard had fraudulently and / or negligently misrepresented the tax implications of the Sipitang Project to the Audit Committee and Board of Directors of GAB; and
- (ii) Bernard had breached his fiduciary duties owed to GAB and Trusvest.

In consequence, GAB and TVSB suffer loss and damage amounting to RM13,245,173.

Bernard through his solicitors filed his Defence on 16 November 2020. GAB and TVSB will file its Reply to the Defence in due course. The court has fixed the matter for case management on 14 December 2020.

B10. Material litigation (Cont'd)

- (b) On 1 October 2020, Gabungan Strategik Sdn Bhd ("GSSB"), the subsidiary of the company, filed a Writ of Summons against: -
- (i) Geonamics (M) Sdn Bhd ("1st Defendant")
 - (ii) Jurutera Perunding Primareka Sdn Bhd ("2nd Defendant")
 - (iii) Yee Yong Yip ("3rd Defendant")
 - (iv) Tiong Ping Sing ("4th Defendant")
 - (v) Tang Pui San ("5th Defendant")
 - (vi) Mohd Noor Nazrul Bin Mohd Yusof ("6th Defendant")
 - (vii) Azmi Bin Md Aziz ("7th Defendant")
 - (viii) Wong Kee Choo ("8th Defendant")
 - (ix) Choon Suan Fatt ("9th Defendant")
 - (x) Ahmad Bashti Bin Azmi ("10th Defendant")
 - (xi) Foo Mun Pong ("11th Defendant")

This Suit is at its preliminary stage and only the 1st to 3rd Defendants have entered appearance in the Suit, GSSB has filed its Statement of Claim on 25th November 2020.

The court has fixed the case management on 18th December 2020.

B11. 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, 31 December 2019, 31 March 2020 and 30 June 2020 made by the Company pertaining to the MOU between the Company and Tera Capital.

On 28 August 2020, Prime Minister Tan Sri Muhyiddin bin Haji Muhammad Yassin has announced that Recovery Movement Control Order (RMCO) will be extended until 31 December 2020. Four districts in Sabah, Lahad Datu, Tawau, Kunak and Semporna were placed under a targeted enhanced movement control order (TEMCO) from 28 September 2020 until 12 October 2020.

Both the Company and Tera Capital will be monitoring the progress of the pandemic from various countries from time to time and will continue with their commitment on the project as well as speed up the progress of the project once business is resumed back to normal.

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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 9 months ended	
	30 Sept 20 RM'000	30 Sept 19 RM'000	30 Sept 20 RM'000	30 Sept 19 RM'000
Profit attributable to equity holders of the Company (RM'000)	4,970	11,321	(65,271)	33,119
Number of shares at the beginning of the year ('000)	493,429	477,579	493,429	477,579
Share resale	-	4,679	-	4,679
Dividend issue by shares	-	7,679	-	7,679
Weighted average number of ordinary shares ('000)	493,429	489,938	493,429	489,938
Basic earnings per share (sen)	1.01	2.31	(13.23)	6.76

(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 9 months ended	
	30 Sept 20 RM'000	30 Sept 19 RM'000	30 Sept 20 RM'000	30 Sept 19 RM'000
Profit attributable to equity holders of the Company (RM'000)	4,970	11,321	(65,271)	33,119
No of ordinary shares for basic earnings per share computation	493,429	490,027	493,429	490,027
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	609,422	612,824	609,422
Diluted earnings per share (sen)	0.81	1.86	(10.65)	5.43

B13. Authorisation for Issue

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