



ECONPILE HOLDINGS BERHAD

(Company No. 1017164-M)

NOTES TO THE INTERIM FINANCIAL STATEMENTS - SECOND QUARTER AND SIX MONTHS ENDED 31 DECEMBER 2018

A1. Basis of preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the requirements of Paragraph 9.22 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") and the Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting. This unaudited interim financial report should be read in conjunction with the Group's most recent audited financial statements for the financial year ended 30 June 2018.

A2. Significant Accounting Policies

The accounting policies and method of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 30 June 2018 except for the following new/revised MFRSs and amendments to MFRSs:

		Effective for annual periods beginning on or after
MFRS 16	Leases	1 January 2019
IC Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 3	Business Combinations	1 January 2019
Amendments to MFRS 9	Financial Instruments - Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 11	Joint Arrangements	1 January 2019
Amendments to MFRS 112	Income Taxes	1 January 2019
Amendments to MFRS 119	Employee Benefits - Plan amendment, Curtailment and Settlement	1 January 2019
Amendments to MFRS 123	Borrowing Costs	1 January 2019
Amendments to MFRS 128	Investment in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to MFRS 3	Business Combinations - Definition of a Business	1 January 2020
Amendments to MFRS 101 and MFRS 108	Definition of Material	1 January 2020
Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Yet to be determined

A3. Auditors' Report

The reports of the auditors to the members of Econpile Holdings Berhad and its subsidiary companies on the financial statements for the financial year ended 30 June 2018 were not subject to any qualification and did not include any adverse comments made under subsection (3) of Section 174 of the Companies Act, 1965.

A4. Seasonality or Cyclicity of Interim Operations

The Group's results are not materially affected by any seasonal or cyclical factors.

A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that were unusual in nature, size or incidence during the current quarter and financial period ended 31 December 2018.

NOTES TO THE INTERIM FINANCIAL STATEMENTS - SECOND QUARTER AND SIX MONTHS ENDED 31 DECEMBER 2018

A6. Material Effect of Changes in Estimates of Amounts Reported in Prior Interim Periods or Prior Financial Years

There were no changes in estimates of amounts that have a material effect on results during the current quarter and financial period ended 31 December 2018.

A7. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period ended 31 December 2018.

A8. Dividends Paid

No dividends were paid by the Company in the current quarter and financial period ended 31 December 2018.

A9. Segmental Reporting

The Group is predominantly involved in general construction and piling works, which is the only reportable segment. Other non-reportable segments comprise investment holding and operations related to rental of investment properties and machinery and related accessories. All the Group's operations are carried out in Malaysia.

A10. Property, Plant and Equipment

The fair value adopted at the date of transition to MFRSs has been brought forward, without amendment from the most recent annual financial statements for the financial year ended 30 June 2018.

A11. Significant Post Balance Sheet Event

There were no material events as at 19 February 2019, being the date not earlier than 7 days from the date of this announcement, that will affect the financial results of the current financial period under review.

A12. Changes in Composition of the Group

There were no changes in the composition of the Group including business combinations, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations during the current quarter and financial period ended 31 December 2018.

A13. Contingent Liabilities and Contingent Assets

There were no material changes in contingent liabilities and contingent assets since the last audited financial statements for the financial year ended 30 June 2018 to 19 February 2019, being a date not earlier than 7 days from the date of this announcement, save for the following:

	As at 19.02.19 RM'000	As at 30.06.18 RM'000
Contingent Liabilities (Unsecured) Group		
- Guarantees given to contract customers in relation to construction contracts	71,905	67,751
Company		
- Guarantees given to banks for facilities granted to a subsidiary	55,369	40,432
- Guarantees given to suppliers for credit terms granted to a subsidiary	26,999	25,167

A14. Capital Commitments

	As at 31.12.18 RM'000	As at 30.06.18 RM'000
Capital expenditure Authorised and contracted for	15,125	17,092

A15. Significant Related Party Transactions

There were no significant related party transactions for the current quarter and financial period ended 31 December 2018.

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PART B : EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of the Performance of the Group

	Individual Period			Cummulative Period		
	Current year	Preceding year	Changes	Current	Preceding year	Changes
	quarter	corresponding		financial period	corresponding	
	31.12.18	quarter	(Amount/%)	31.12.18	period	(Amount/%)
RM'000	31.12.17	RM'000 / %	RM'000	31.12.17	RM'000 / %	
Revenue	148,182	162,171	(13,989) / 8.6%	348,478	331,070	17,408 / 5.3%
Gross profit/(loss)	(20,705)	32,907	(53,612) / >100%	4,962	67,524	(62,562) / 92.7%
Profit/(Loss) before taxation	(39,524)	30,369	(69,893) / >100%	(19,079)	59,498	(78,577) / >100%
Profit/(Loss) after taxation	(34,447)	22,731	(57,178) / >100%	(19,404)	43,923	(63,327) / >100%

Group's Financial Performance

The Group recorded a revenue of RM348.5 million for the current six (6) months financial period ended 31 December 2018 mainly from the piling and foundation services business segment. Revenue contribution from piling and foundation works from property development projects continue to dominate the Group's revenue, amounting to RM257.9 million or 74.0% (1HFY18 - RM261.2 million or 78.9%) and the remaining revenue derived from piling and foundation works from infrastructure and other segments amounting to RM90.6 million or 26.0% (1HFY18 - RM69.9 million or 21.1%).

The Group recorded a loss before tax of RM19.1 million for the current six (6) months financial period ended 31 December 2018. Gross profit margin and profit/(loss) before tax margin stood at 1.4% (1HFY18 - 20.4%) and (5.5%) (1HFY18 - 18.0%) respectively, for the current financial period ended 31 December 2018.

Whilst there is a slight increase in revenue for the six (6) months current financial period as compared to preceding year corresponding period, the Group's performance was affected by, (1) approximately RM18.5 million losses caused by the delay and idling costs from two (2) infrastructure projects caused by overall project rationalisation of costs and changes in design and/or scope of work by main contractors; and (2) approximately RM15.4 million costs over-run in a property development project. The Group's loss before taxation is also affected by an impairment of trade receivable amounting RM15.1 million as a result of the appointment of Receiver and Manager by a secured creditor against the particular debtor in November 2018.

Other Income

Included in Other Income during the current financial period is rental income of equipments and gain from disposal of machineries amounting to RM1.7 million as compared to RM6.4 million in the preceding year corresponding period.

Project Updates and Order Book

As at 31 December 2018, there are 25 on-going projects at various stages of completion. Order book stood at approximately RM1.0 billion as at 31 December 2018. Concentration of credit risk with respect of trade receivables is limited except for two (2) customers which accounted for 44.5% (including retention sum) of trade receivables as at 31 December 2018.

B2. Comparison with Preceding Quarter's Results

	Current	Preceding	Changes
	quarter ended	quarter ended	
	31.12.18	30.09.18	RM'000 / %
RM'000	RM'000		
Revenue	148,182	200,296	(52,114) / 26.0%
Gross profit/(loss)	(20,705)	25,667	(46,372) / >100%
Profit/(Loss) before taxation	(39,524)	20,445	(59,969) / >100%
Profit/(Loss) after taxation	(34,447)	15,043	(49,490) / >100%

In the current second quarter ended 31 December 2018, the Group recorded a lower revenue of RM148.2 million to RM200.3 million from RM200.3 million in the most recent preceding quarter ended 30 September 2018. The piling and foundation works from property development projects and infrastructure projects during the current quarter ended 31 December 2018, amounted to RM105.8 million and RM42.4 million respectively, as compared to RM152.1 million and RM48.2 million respectively, in the preceding quarter ended 30 September 2018.

The gross loss for the current quarter ended 31 December 2018 compared to the preceding quarter ended 30 September 2018 was due mainly to, (1) approximately RM18.5 million losses caused by the delay and idling costs from two (2) infrastructure projects caused by overall project rationalisation of costs and changes in design and/or scope of work by main contractors; and (2) approximately RM15.4 million costs over-run in a property development project.

The loss before taxation for the current quarter is also affected by an impairment of trade receivable amounting RM15.1 million as a result of the appointment of Receiver and Manager by a secured creditor against the particular debtor in November 2018.

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B3. Prospects

Econpile remains optimistic on new job wins both in private-initiated property development projects and also on-going infrastructure projects which are technically challenging in both civil engineering and deep-basement works. Econpile anticipates the construction sector's outlook to remain positive for FY2019.

B4. Profit Forecast or Profit Guarantee

Not applicable as there was no profit forecast or profit guarantee issued.

B5. Profit Before Tax

Profit for the current quarter and financial period ended 31 December 2018 is stated after charging/(crediting) :-

	Current quarter ended 31.12.18 RM'000	Current financial period 31.12.18 RM'000
Depreciation of investment properties	10	20
Depreciation of properties, plant and equipments	7,603	15,417
Finance income	(201)	(326)
Finance expense	870	1,927

B6. Taxation

	Current quarter ended 31.12.18 RM'000	Current financial period 31.12.18 RM'000
Current tax expense		
- current year	(5,077)	325
- prior year	-	-
Deferred tax expense	-	-
	<u>(5,077)</u>	<u>325</u>

The effective tax rate for the financial period ended 31 December 2018 was higher than the statutory tax rate of 24 percent is primarily due to certain expenses not allowable for tax purposes.

B7. Status of Corporate Proposal

There were no pending corporate proposals up to 19 February 2019, being the date not earlier than 7 days from the date of this announcement.

B8. Group Borrowings and Debt Securities

The Group's borrowings as at 31 December 2018 are as follows:

	Short Term RM'000	Long Term RM'000	Total RM'000
<u>Secured</u>			
Bankers acceptances	64,086	-	64,086
Finance lease liabilities	10,661	5,776	16,437
Term loans	387	3,919	4,306
	<u>75,134</u>	<u>9,695</u>	<u>84,829</u>

All borrowings of the Group are denominated in Ringgit Malaysia.

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B9. Ageing Analysis of Trade Receivables

	As at 31.12.2018 RM'000	As at 30.06.18 RM'000
Neither past due nor impaired	200,446	299,923
1 to 60 days past due not impaired	125,936	36,607
61 to 120 days past due not impaired	51,224	39,148
More than 121 days past due not impaired	19,638	42,709
	196,798	118,464
Impaired	17,663	2,806
Total Trade Receivables	414,907	421,193
Less: Allowance for impairment	(17,663)	(2,806)
Net Trade Receivables	397,244	418,387
Amount due from contract customers	148,326	79,433
Other receivables and deposits	4,957	2,746
	<u>550,527</u>	<u>500,566</u>

B10. Financial Instruments

Save for below, there were no financial instruments with off balance sheet risks as at 19 February 2019, being a date not earlier than 7 days from the date of this announcement.

	As at 19.02.19 RM'000	As at 30.06.18 RM'000
Group		
Performance guarantees given to contract customers and suppliers in relation to construction contracts	71,905	67,751

B11. Material Litigation

The Group does not have any material litigation as at 19 February 2019, being a date not earlier than 7 days from the date of this announcement.

B12. Dividend

No dividend was declared for the current quarter and financial period ended 31 December 2018.

B13. Earnings Per Share

The earnings per share for the current quarter and financial period ended 31 December 2018 is computed as follows:-

	Current quarter ended 31.12.18	Current financial period ended 31.12.18
Profit/(Loss) attributable to the Owners of the Company for the financial period (RM'000)	(34,447)	(19,404)
Weighted average number of ordinary shares in issue ('000)	1,337,500	1,337,500
Basic Earnings/(Loss) Per Share (sen)	(2.58)	(1.45)

There is no diluted earnings per share as at the end of the quarter and financial period ended 31 December 2018 as it is anti-dilutive.