

Notes to the Interim Financial Report

A1 Basis of preparation

The unaudited interim financial report has been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“MFRS”) 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board and paragraph 9.22 and Appendix 9B of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial report should be read in conjunction with the audited financial statements for the financial year ended 30 June 2018. These explanatory notes attached to the interim financial report 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 financial year ended 30 June 2018.

A2 Changes of accounting policies

The accounting policies adopted by the Group in the quarterly financial statements are consistent with those adopted in the financial statements for financial year ended 30 June 2018, except for the adoption of the following new MFRSs, Amendments/Improvements to MFRSs and IC Interpretations as follows:

<i>Standard</i>	<i>Title</i>
MFRS 9	Financial Instruments
Amendments to MFRS 2	Classification and Measurement of Shared-based Payment Transactions
Amendments to MFRS 4	Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
MFRS 128	Investments in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
Amendments to MFRS 140	Transfer of Investment Property
IC Interpretation 22	Foreign Currency Transactions and Advance Consideration

The adoption of these new MFRSs, Amendments/Improvements to MFRSs and IC Interpretations do not have any material impact on the financial statement of the Group.

A2.1 Amendments to MFRSs and IC Interpretations were issued but not yet effective and have not been applied by the Group:

Effective for financial periods beginning on or after 1 January 2019:

- IC Interpretation 23 ‘Uncertainty over Income Tax Treatments’
- MFRS 16 Leases
- Amendments to MFRS 128: Long-term Interest in Associates and Joint Ventures
- Amendments to MFRS 119 Plan Amendment, Curtailment or Settlement

The Group will adopt the above pronouncements when they become effective in the respective financial periods. These pronouncements are not expected to have a material impact to the financial statements of the Group upon their initial recognition. The Group is currently assessing the impact of these standards and plans to adopt these standards on the respective effective dates.

A3 Seasonal or cyclical factors

The operations of the Group are not subject to seasonality / cyclicity of operations.

A4 Unusual items

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the financial period under review because of their nature, size, or incidence.

A5 Changes in estimates

Not applicable.

A6 Significant related party transactions

There were no significant related party transactions during the financial period under review.

A7 Movement in debt and equity securities

There were no other issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the quarter under review.

The details of shares held as treasury shares for the period ended 31 December 2018 are as follow:

	Number of Treasury shares	Total Considerations RM
Balance as at 30 September 2018	1,070,164	1,141,028
Repurchased during the quarter	-	-
Balance as at 31 December 2018	1,070,164	1,141,028

The shares purchased are being held as treasury shares in accordance with Section 127 (16) of the Companies Act, 2016.

A8 Dividend paid

An interim single tier dividend of 1.5 sen per ordinary share amounting to RM5,591,588.39 in respect of the financial year ending 30 June 2019 was paid on 28 December 2018.

A9 Carrying Amount of revalued property, plant and equipment

The valuation of property, plant and equipment has been brought forward without amendment from the financial statement for the year ended 30 June 2018.

A10 Segmental reporting

The segmental information of the Group analysed by activities is as follows:-

6 months ended 31.12.18	← Before Group's Eliminations →						Adjustment and Eliminations RM'000	Total RM'000
	Construction RM'000	Logging and timber trading RM'000	Property development RM'000	Trading RM'000	Logistic RM'000	Investment holding RM'000		
Revenue								
External Sales	99,855	40,259	22,897	4,869	615	71	(1,001)	167,565
Inter-segment sales	20,376	-	-	14,197	-	8,789	(43,362)	-
Total revenue	<u>120,231</u>	<u>40,259</u>	<u>22,897</u>	<u>19,066</u>	<u>615</u>	<u>8,860</u>	<u>(44,363)</u>	<u>167,565</u>
Results								
Profit/(Loss) from operation	1,691	33,204	3,970	464	(26)	6,468	(24,206)	21,565
Finance costs	(1,305)	(16)	(138)	(29)	(29)	-	-	(1,517)
Share of results in associates	-	1,878	-	-	-	-	-	1,878
Profit/(Loss) before tax	<u>386</u>	<u>35,066</u>	<u>3,832</u>	<u>435</u>	<u>(55)</u>	<u>6,468</u>	<u>(24,206)</u>	<u>21,926</u>
Total assets								
Segment assets/ Consolidated total assets	<u>162,031</u>	<u>56,552</u>	<u>154,770</u>	<u>10,808</u>	<u>330</u>	<u>49,133</u>	<u>88,170</u>	<u>521,794</u>

6 months ended 31.12.17	← Before Group's Eliminations →						Adjustment and Eliminations RM'000	Total RM'000
	Construction RM'000	Logging and timber trading RM'000	Property development RM'000	Trading RM'000	Logistic RM'000	Investment holding RM'000		
Revenue								
External Sales	98,196	81,122	47,995	6,603	437	-	3,836	238,189
Inter-segment sales	11,403	-	-	7,637	-	44,090	(63,130)	-
Total revenue	<u>109,599</u>	<u>81,122</u>	<u>47,995</u>	<u>14,240</u>	<u>437</u>	<u>44,090</u>	<u>(59,294)</u>	<u>238,189</u>
Results								
Profit/(Loss) from operation	(2,483)	79,744	1,905	18	33	40,204	(80,101)	39,320
Finance costs	(1,308)	(15)	(89)	(25)	(12)	-	-	(1,449)
Share of results in associates	-	836	-	-	-	-	-	836
Profit/(Loss) before tax	<u>(3,791)</u>	<u>80,565</u>	<u>1,816</u>	<u>(7)</u>	<u>21</u>	<u>40,204</u>	<u>(80,101)</u>	<u>38,707</u>
Total assets								
Segment assets/ Consolidated total assets	<u>317,874</u>	<u>113,239</u>	<u>153,898</u>	<u>16,410</u>	<u>877</u>	<u>295,892</u>	<u>(365,386)</u>	<u>532,804</u>

A11 Events subsequent to the balance sheet date

There were no material events subsequent to the end of the period under review that have not been reflected in the quarterly financial statements.

A12 Changes in composition of the Group

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

A13 Capital commitments

The outstanding commitments in respect of capital expenditure at the quarter under review provided for in the financial statements are as follows :

<u>Property, Plant & Equipment</u>	31 December 2018 RM'000
Approved and contracted for - Denominated in RM	<u>9,203</u>

A14 Changes in contingent liabilities

	The Group		The Company	
	As at 31.12.18 RM'000	As at 30.06.18 RM'000	As at 31.12.18 RM'000	As at 30.06.18 RM'000
Performance and tender bond granted to contract customers	50,464	70,389	-	-

B Bursa Securities Listing Requirements (Part A of Appendix 9B)

B1 Review of performance

	Individual Period (2nd quarter)			Cumulative Period		
	Current Year Quarter 31/12/2018 (RM'000)	Preceding Year Corresponding Quarter 31/12/2017 (RM'000)	Changes (%)	Current Year To-date 31/12/2018 (RM'000)	Preceding Year Corresponding Period 31/12/2017 (RM'000)	Changes (%)
Revenue	62,479	120,941	-48	167,565	238,189	-30
Profit from operation	12,326	22,484	-45	21,565	39,320	-45
Profit before interest and tax	12,866	23,280	-45	23,442	40,156	-42
Profit before tax	12,119	22,485	-46	21,926	38,707	-43
Profit after tax	7,455	15,849	-53	14,810	27,484	-46
Profit attributable to Owners of the Company	3,773	6,207	-39	8,508	10,927	-22

During the current quarter, the Group recorded a lower revenue of RM62.5 million as compared to RM120.9 million in the preceding year corresponding quarter. The Group's profit before tax decreased to RM12.1 million as compared to RM22.5 million in the preceding year corresponding quarter. The lower revenue and profit before tax during the current quarter were mainly due to decrease in revenue and profit recognition in the Property Development, Construction and Logging and Timber Trading segments.

Detailed analysis of the performance for the respective operating business segments for the period ended 31 December 2018 are as follow:

	Revenue			Profit / (Loss) before tax		
	Current Year Quarter 31/12/2018 (RM'000)	Preceding Year Corresponding Quarter 31/12/2017 (RM'000)	Changes (RM'000)	Current Year Quarter 31/12/2018 (RM'000)	Preceding Year Corresponding Period 31/12/2017 (RM'000)	Changes (RM'000)
<i>Segment</i>						
Construction	25,179	52,279	(27,100)	(429)	(2,175)	NM
Logging & timber trading	22,521	44,134	(21,613)	11,103	25,350	(14,247)
Property development	12,624	21,423	(8,799)	2,591	2,075	516
Trading	1,747	2,892	(1,145)	196	62	134
Logistic	360	213	147	(43)	(103)	NM
Investment holding	49	-	49	(1,299)	(2,724)	NM
Total	62,479	120,941		12,119	22,485	

* NM = Non-meaningful

Construction Segment

For the current quarter, revenue decreased to RM25.2 million as compared to RM52.3 million in the preceding year corresponding quarter. The slowdown in revenue recognition is a result of completed construction works for construction projects.

Loss before tax for the current quarter decreased to RM0.4 million as compared to a loss of RM2.2 million in the preceding year corresponding quarter. This was mainly due to reversal of provision for Liquidated and Ascertained Damages (LAD) on the construction contract.

Logging and Timber Trading Segment

This segment recorded a lower revenue and profit before tax of RM22.5 million and RM11.1 million respectively as compared to RM44.1 million and RM25.4 million in the preceding year corresponding quarter.

The decreased in revenue and profit before tax were mainly due to less working block in production and the other blocks are pending for approval from authorities. In addition, it is also due to lower production as a result of poor weather conditions which affected the supply.

Property Development Segment

This segment recorded a lower revenue but slightly higher profit before tax of RM12.6 million and RM2.6 million respectively as compared to a revenue of RM21.4 million and profit before tax of RM2.1 million in the preceding year corresponding quarter.

The revenue declined by RM8.8 million due to the completion of the Australia project, Gardenhill's revenue being substantially recognized in the preceding year. Revenue reported for the current quarter was mainly from Rica Residence @ Sentul. However, the profit before tax recorded slightly higher as compared to the preceding year corresponding quarter. This was mainly due to the lower sales and marketing expenses for the current quarter.

Trading and Logistic Segments

For the current quarter, the Trading and Logistic segments registered a total revenue of RM2.1 million as compared to RM3.1 million in the preceding year corresponding quarter. Despite the lower revenue achieved, the Trading and Logistic segments recorded profit before tax for both segments amounting RM0.2 million as compared to the loss before tax of RM0.1 million for preceding year corresponding quarter. This was mainly due to higher profit margin being obtained from the trade of construction material for the current quarter.

B2 Variation of result against preceding quarter

	Current Year Quarter 31/12/2018 (RM'000)	Immediate Preceding Quarter 30/09/2018 (RM'000)	Changes (%)
Revenue	62,479	105,086	-41
Profit from operation	12,326	9,239	33
Profit before interest and tax	12,866	10,576	22
Profit before tax	12,119	9,807	24
Profit after tax	7,455	7,355	1
Profit attributable to Owners of the Company	3,773	4,735	-20

For the current quarter ended 31 December 2018, the Group registered a lower revenue of RM62.5 million but higher profit before tax of RM12.1 million as compared to a revenue of RM105.1 million and profit before tax of RM9.8 million in the preceding quarter ended 30 September 2018.

The decreased in revenue was mainly due to the slowdown in revenue recognition from the completion of some construction works in the construction segment.

However, the higher profit before tax was mainly contributed by the logging and timber segment and the reversal of provision for Liquidated and Ascertained Damages (LAD) on the construction contract.

B3 Current year prospects

The Group's Construction segment will continue to develop through financial year 2019, focusing on our current order book of approximately RM284.1 million (including RM81.8 million of internal projects). Going forward, we opine that there will be uncertainties in the Construction segment in the short term. However, we believe that with a good track record and having completed various rail-related projects such as Double-Track (Seremban-Gemas), LRT stations and depots and consistently delivering quality products and services, we are able to compete on some of the infrastructure and rail construction jobs. In addition, our Group has invested into the latest trackwork machineries capable of constructing and maintaining railway tracks and such services are only provided by a limited number of companies.

The property market in general remains challenging, however, we are hopeful buyers' sentiments of the economic environment will improve in the near future. The response towards the remaining 30% Rica Residence @ Sentul bumiputra reserved units remains sluggish. The division will put in extra effort to drive sales. On Paragon, Melbourne, the piling works had been completed and sales to date is about 83%. Regular sales activities will be continuously carried out until all units are sold. On Rica Residence @ Kinrara, Puchong, the project is targeted for launch this year but nevertheless, the actual launch date is subject to the market conditions at that time. Rica Residence @ Kinrara is strategically located and within a short walk is the BK5, LRT station and other living conveniences.

For timber industry, backed by the positive outlook in global demand, increased consumer confidence and improved economies in Asia, the prospects are indeed bright. With the stable average prices of timber products, the Logging and Timber Trading segment will continue to generate significant revenue to the Group.

The Group will continue to explore more business opportunities and is committed to continue capitalising its strengths to generate sustainable revenue from its existing or new businesses.

B4 Profit forecast

Not applicable.

B5 Profit guarantee

Claim by the Company against Cashrep Holdings Sdn. Bhd. (“Cashrep”) and Cita Jati Sdn. Bhd. (“Cita Jati”) based on Profit Guarantee Agreement.

On 23 November 2006 and 11 April 2007, the Company has obtained Winding-Up Orders from the Court against Cita Jati and Cashrep respectively. The Official Receiver from the Jabatan Insolvensi, Wilayah Persekutuan was appointed as liquidator for both companies.

B6 Income tax

Income tax includes:

	Individual Quarter		Cumulative Quarter	
	3 months ended 31/12/2018 RM'000	3 months ended 31/12/2017 RM'000	6 months ended 31/12/2018 RM'000	6 months ended 31/12/2017 RM'000
Current period's provision	3,352	6,567	5,730	11,137
Under / (Over) provision for the prior years	-	-	74	-
	3,352	6,567	5,804	11,137
Deferred taxation	1,312	69	1,312	86
Under / (Over) provision for the prior years	-	-	-	-
	4,664	6,636	7,116	11,223

The effective tax rate for the financial year was higher than the statutory income tax rate in Malaysia mainly due to certain expenses not deductible for tax purposes and higher tax rate in Australia.

B7 Purchase or disposal of quoted securities

There were no purchase or disposal of quoted securities in Malaysia during the financial quarter under review.

Investment in quoted shares as at 31 December 2018 were as follows :

	RM'000
At cost	11,822
At market value	
- Shares	8,643
- Warrants	2,741

B8 Status of corporate proposals announced

There were no corporate proposal announced during the financial period to date.

B9 Borrowings

The tenure of the Group borrowings classified as follows:-

	31 December 2018		31 December 2017	
	Short term	Long term	Short term	Long term
<u>Secured</u>	RM'000	RM'000	RM'000	RM'000
Term loan	39,954	23,969	14,500	37,101
Hire purchase	1,714	3,961	732	2,377
Invoice Finance	1,139	-	9,821	-
Bankers Acceptance	-	-	5,332	-
Revolving Credit	-	-	-	-
	<u>42,806</u>	<u>27,929</u>	<u>30,385</u>	<u>39,478</u>

B10 Off balance sheet financial instruments

The Group does not have any financial instrument with off balance sheet risk as at 31 December 2018.

B11 Trade receivables

The age analysis of trade receivables is as follow :

	Current Quarter Ended 31/12/2018 RM'000
Not past due	28,749
Past due:	
- less than 3 months	5,090
- 3 to 6 months	3,926
- over 6 months	44,823
- more than 1 year	20,869
	<u>103,457</u>

The Group is satisfied that recovery of the amount is possible, therefore there is no impairment for past due trade receivables.

B12 Material litigation

Neither the Company nor any of its subsidiary companies is engaged in any material litigation, claims or arbitration either as plaintiff or defendant as at the date of this announcement and the Directors do not have any knowledge of any proceedings pending or threatened against the Company or its subsidiary companies or of any facts likely to give rise to any proceedings which might materially affect the position or business of the Group.

B13 Dividend

No dividends were declared for the second quarter ended 31 December 2018.

B14 Earnings per share

The **basic earnings per share** is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issued at the end of the period.

The **diluted earnings per share** is calculated by dividing the net profit attributable to equity holders of the Company for the current individual quarter and the current cumulative quarter by the adjusted weighted average number of ordinary shares in issue during the current individual quarter and the current cumulative quarter plus the weighted average number of ordinary shares which deemed to be issued on conversion of warrants and ESOS into ordinary shares.

	Individual Quarter		Cumulative Quarter	
	3 months Ended 31/12/2018 RM'000	3 months Ended 31/12/2017 RM' 000	6 months Ended 31/12/2018 RM000	6 months Ended 31/12/2017 RM'000
Net profit attributable to Owners of the Company	3,773	6,207	8,508	10,927
Weighted Average Number of shares at the end of the period ('000)	372,773	368,880	372,773	367,734
Weighted Average Number of shares of conversion of Warrants and ESOS to shares ('000)	119,228	120,443	119,228	120,443
Adjusted number of ordinary shares in issue and issuable ('000)	492,001	489,323	492,001	488,178
Basic earnings per share (sen)	1.01	1.68	2.28	2.97
Diluted earnings per share (sen)	0.77	1.27	1.73	2.24

B15 Profit before taxation

	Current Year Quarter 31/12/2018 RM'000 Unaudited	Current Year To-date 31/12/2018 RM'000 Unaudited
Profit before tax is arrived at after charging/(crediting):-		
Interest income	(229)	(463)
Rental of premises	-	-
(Gain)/Loss on disposal of property, plant & equipment	(26)	(23)
Depreciation	2,951	5,601
Interest expense	1,228	2,358
Reversal of provision for liquidated damages	(2,630)	(2,630)
Additional/(Reversal) of provision for foreseeable loss	(79)	(96)
Unrealised (gain)/loss on foreign exchange	605	543

B16 Authorisation for issue

The Board of Directors authorised the issue of this unaudited interim financial report on 21 February 2019.

By Order of the Board
Fajarbaru Builder Group Bhd (281645-U)

Dato' Ir Low Keng Kok
Chairman

Kuala Lumpur
21 February 2019