

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 2019. 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 2019.

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 2019, except for the adoption of the following new and revised MFRSs, IC Interpretations and Amendments which are effective from the annual period on or after 1 January 2019:-

| Standard | Title |
|------------------------|--|
| MFRS 16 | Leases |
| IC Interpretation 23 | Uncertainty over Income Tax Treatments |
| Amendments to MFRS 9 | Financial Instruments- Prepayment Features with Negative Compensation |
| Amendments to MFRS 11 | Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle) |
| Amendments to MFRS 112 | Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle) |
| Amendments to MFRS 119 | Employee Benefits- Plan Amendment, Curtailment or Settlement |
| Amendments to MFRS 123 | Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle) |
| Amendments to MFRS 128 | Long-term Interests in Associates and Joint Ventures |

The adoption of the above new accounting standards, interpretations and amendments does not have any material impact on the financial statements 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:

| <i>Standard</i> | <i>Title</i> |
|--|---|
| Amendments to MFRS 3 | Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle) |
| Amendments to MFRS 10 and MFRS 128 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| Amendments to MFRS 101 and MFRS 108 | Definition of Material |
| Amendments to Reference to the Conceptual Framework in MFRSs | |

The Group will apply the above MFRSs, Amendments/Improvements to MFRSs and IC Interpretations that are applicable once they become effective. The adoption of the above MFRSs, Amendments/Improvements to MFRSs and IC Interpretations is not expected to have any material impact on the financial statements of the Group.

A3 Audit Report of Preceding Annual Financial Statements

The audit report of the Group's annual financial statements for the year ended 30 June 2019 was not subject to any qualification.

A4 Seasonal or cyclical factors

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

A5 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.

A6 Changes in estimates

Not applicable.

A7 Significant related party transactions

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

A8 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 30 September 2019 are as follow:

| | Number of Treasury shares | Total Considerations RM |
|---------------------------------|---------------------------|-------------------------|
| Balance as at 30 June 2019 | 1,070,164 | 1,141,028 |
| Repurchased during the quarter | - | - |
| Balance as at 30 September 2019 | 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.

A9 Dividend paid

There were no dividend paid during the current quarter.

A10 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 2019.

A11 Segmental reporting

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

| 3 months ended 30.09.19 | ← 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 | 22,273 | 5,377 | 20,204 | 1,969 | 306 | 84 | 180 | 50,393 |
| Inter-segment sales | 12,442 | - | - | 2,314 | - | 6,370 | (21,126) | - |
| Total revenue | <u>34,715</u> | <u>5,377</u> | <u>20,204</u> | <u>4,283</u> | <u>306</u> | <u>6,454</u> | <u>(20,946)</u> | <u>50,393</u> |
| Results | | | | | | | | |
| Profit/(Loss) from operation | (2,305) | 10,149 | 3,691 | (103) | (39) | 4,803 | (17,156) | (960) |
| Finance costs | (674) | (6) | (1) | (1) | (14) | - | - | (696) |
| Share of results in associates | - | (192) | - | - | - | - | - | (192) |
| Profit/(Loss) before tax | <u>(2,979)</u> | <u>9,951</u> | <u>3,690</u> | <u>(104)</u> | <u>(53)</u> | <u>4,803</u> | <u>(17,156)</u> | <u>(1,848)</u> |
| Total assets | | | | | | | | |
| Segment assets/ Consolidated total assets | <u>185,480</u> | <u>40,421</u> | <u>181,341</u> | <u>6,958</u> | <u>1,243</u> | <u>432,141</u> | <u>(376,308)</u> | <u>471,276</u> |

| 3 months ended 30.09.18 | ← 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 | 74,676 | 17,738 | 7,441 | 3,122 | 256 | 21 | 1,832 | 105,086 |
| Inter-segment sales | 8,806 | - | - | 7,285 | - | 6,159 | (22,250) | - |
| Total revenue | <u>83,482</u> | <u>17,738</u> | <u>7,441</u> | <u>10,407</u> | <u>256</u> | <u>6,180</u> | <u>(20,418)</u> | <u>105,086</u> |
| Results | | | | | | | | |
| Profit/(Loss) from operation | 905 | 18,013 | 1,191 | 2 | (38) | 4,965 | (15,799) | 9,239 |
| Finance costs | (659) | (8) | (61) | (29) | (12) | - | - | (769) |
| Share of results in associates | - | 1,337 | - | - | - | - | - | 1,337 |
| Profit/(Loss) before tax | <u>246</u> | <u>19,342</u> | <u>1,130</u> | <u>(27)</u> | <u>(50)</u> | <u>4,965</u> | <u>(15,799)</u> | <u>9,807</u> |
| Total assets | | | | | | | | |
| Segment assets/ Consolidated total assets | <u>180,669</u> | <u>48,779</u> | <u>146,948</u> | <u>12,200</u> | <u>324</u> | <u>52,879</u> | <u>102,965</u> | <u>544,764</u> |

A12 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.

A13 Changes in composition of the Group

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

A14 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> | 30 September 2019 RM'000 |
|--|-----------------------------|
| Approved and contracted for - Denominated in RM | <u>205</u> |

A15 Changes in contingent liabilities

| | The Group | | The Company | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | As at 30.09.19 RM'000 | As at 30.06.19 RM'000 | As at 30.09.19 RM'000 | As at 30.06.19 RM'000 |
| Performance and tender bond granted to contract customers | 56,111 | 50,655 | - | - |

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

B1 Review of performance

| | Individual Period (1s quarter) | | | Cumulative Period | | |
|---|---|--|----------------|---|---|----------------|
| | Current Year Quarter 30/09/2019 (RM'000) | Preceding Year Corresponding Quarter 30/09/2018 (RM'000) | Changes (%) | Current Year To-date 30/09/2019 (RM'000) | Preceding Year Corresponding Period 30/09/2018 (RM'000) | Changes (%) |
| Revenue | 50,393 | 105,086 | -52 | 50,393 | 105,086 | -52 |
| Profit/(loss) from operation | (961) | 9,239 | -110 | (961) | 9,239 | -110 |
| Profit/(loss) before interest and tax | (1,152) | 10,576 | -111 | (1,152) | 10,576 | -111 |
| Profit/(loss) before tax | (1,848) | 9,807 | -119 | (1,848) | 9,807 | -119 |
| Profit/(loss) after tax | (2,819) | 7,355 | -138 | (2,819) | 7,355 | -138 |
| Profit/(loss) attributable to Owners of the Company | (2,197) | 4,735 | -146 | (2,197) | 4,735 | -146 |

During the current quarter, the Group recorded a lower revenue of RM50.4 million as compared to RM105.1 million in the preceding year corresponding quarter. The Group registered a loss before tax of RM1.8 million for the current quarter against a profit before tax of RM9.8 million reported in the previous corresponding quarter. The lower revenue and loss before tax during the current quarter were mainly attributed to the reduction in the revenue of Construction segment as well as the Logging and Timber Trading segment.

Detailed analysis of the performance for the respective operating business segments for the period ended 30 September 2019 are as follow:

| | Revenue | | | Profit / (Loss) before tax | | |
|--------------------------|---|--|---------------------|---|---|---------------------|
| | Current Year Quarter 30/09/2019 (RM'000) | Preceding Year Corresponding Quarter 30/09/2018 (RM'000) | Changes (RM'000) | Current Year Quarter 30/09/2019 (RM'000) | Preceding Year Corresponding Period 30/09/2018 (RM'000) | Changes (RM'000) |
| <u>Segment</u> | | | | | | |
| Construction | 22,273 | 74,676 | (52,403) | (3,931) | (320) | NM |
| Logging & timber trading | 5,377 | 17,738 | (12,361) | (1,468) | 8,851 | (10,319) |
| Property development | 20,384 | 9,273 | 11,111 | 4,926 | 2,168 | 2,758 |
| Trading | 1,969 | 3,122 | (1,153) | (81) | (139) | NM |
| Logistic | 306 | 256 | 50 | (106) | (72) | NM |
| Investment holding | 84 | 21 | 63 | (1,188) | (681) | NM |
| Total | 50,393 | 105,086 | | (1,848) | 9,807 | |

* NM = Non-meaningful

Construction Segment

For the current quarter, revenue decreased to RM22.3 million as compared to RM74.7 million in the preceding year corresponding quarter. The lower revenue for the current quarter was due to new projects still in its initial stage of construction and hence, the value of work done is not significant.

In comparison the revenue for the preceding year corresponding period was attributable to the projects which were in advanced stages of work during the period.

Correspondingly with the drop in the revenue, the Group has also recorded a loss before tax for the current quarter of RM3.9 million as compared to a profit before tax of RM0.3 million in the preceding year corresponding quarter.

Logging and Timber Trading Segment

This segment recorded a lower revenue and loss before tax of RM5.4 million and RM1.5 million respectively as compared to a revenue of RM17.7 million and profit before tax of RM8.9 million in the preceding year corresponding quarter.

The revenue generated in the current quarter was 69.4% lower than revenue achieved in the preceding year corresponding quarter mainly attributable to lower production and sales volume of logs due to lesser working block; coupled with the lower selling price which resulted in loss from operation.

Property Development Segment

This segment recorded a higher revenue and profit before tax of RM20.4 million and RM5.0 million respectively as compared to a revenue of RM9.3 million and profit before tax of RM2.4 million in the preceding year corresponding quarter.

The higher revenue and profit before tax for the current quarter were mainly due to higher work progress from the Rica Residence @ Sentul development.

Trading and Logistic Segments

For the current quarter, the Trading and Logistic segments registered a total revenue of RM2.3 million as compared to RM3.4 million in the preceding year corresponding quarter. Despite lower revenue recorded in current quarter, the Trading and Logistic segments loss before tax improved marginally as a result of 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 30/09/2019 (RM'000) | Immediate Preceding Quarter 30/06/2019 (RM'000) | Changes (%) |
|---|---|--|----------------|
| Revenue | 50,393 | 95,330 | -47 |
| Profit/(loss) from operation | (961) | 20,934 | -105 |
| Profit/(loss) before interest and tax | (1,152) | 21,165 | -105 |
| Profit/(loss) before tax | (1,848) | 20,433 | -109 |
| Profit/(loss) after tax | (2,819) | 14,950 | -119 |
| Profit/(loss) attributable to Owners of the Company | (2,197) | 14,129 | -116 |

For the current quarter ended 30 September 2019, the Group registered a lower revenue of RM50.4 million and a loss before tax of RM1.8 million as compared to a revenue of RM95.3 million and a profit before tax of RM20.4 million in the preceding quarter ended 30 June 2019.

The decrease in revenue and profit before tax was mainly due to lower contribution from Construction Segment and Logging and Timber Trading Segment.

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 RM470.0 million (including RM33.3 million of internal project). Moving forward, there will be uncertainties in the Construction segment in the short term. However, with 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. Furthermore, the Group has invested in the latest trackwork machineries capable of constructing and maintaining railway tracks and such services are only provided by a limited number of companies.

Generally, the market is expected to remain subdued for the rest of the year. The sales of Rica Residence @ Sentul is maintained at 73%. We are hopeful that the recent relaxation of price-cap for foreigners will boost sales for Rica Residence @ Sentul. On Rica Residence Puchong, the launch will be delayed further until market condition improves. In Melbourne, the sales rate is over 90% and construction works are progressing well. Ongoing efforts to sell the remaining units are in progress.

For timber industry, contribution of revenue is anticipated to be lower due to the lesser acre of working blocks left to log and the production of the current working blocks is almost to its end. However, our associate company with a remaining 75% of working block yet to be logged will continue to contribute to the Group earnings in the future.

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 30/09/2019 RM'000 | 3 months ended 30/09/2018 RM'000 | 3 months ended 30/09/2019 RM'000 | 3 months ended 30/09/2018 RM'000 |
| Current period's provision | 971 | 2,378 | 971 | 2,378 |
| Under / (Over) provision for the prior years | - | 74 | - | 74 |
| | 971 | 2,452 | 971 | 2,452 |
| Deferred taxation | - | - | - | - |
| Under / (Over) provision for the prior years | - | - | - | - |
| | 971 | 2,452 | 971 | 2,452 |

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 30 September 2019 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:-

| | 30 September 2019 | | 30 September 2018 | |
|-----------------------|----------------------|---------------------|----------------------|---------------------|
| | Short term RM'000 | Long term RM'000 | Short term RM'000 | Long term RM'000 |
| <u>Secured</u> | | | | |
| Term loan | 26,723 | 2,500 | 45,748 | 25,670 |
| Hire purchase | 1,673 | 3,050 | 1,714 | 4,106 |
| Invoice Finance | 8,417 | - | - | - |
| Bankers Acceptance | - | - | 2,515 | - |
| Revolving Credit | 16,667 | - | 18,000 | - |
| | 53,479 | 5,550 | 67,977 | 29,776 |

B10 Off balance sheet financial instruments

The Group does not have any financial instrument with off balance sheet risk as at 30 September 2019.

B11 Trade receivables

The age analysis of trade receivables is as follow :

| | Current Quarter Ended 30/09/2019 RM'000 |
|----------------------|--|
| Not past due | 27,467 |
| Past due: | |
| - less than 3 months | 6,617 |
| - 3 to 6 months | 910 |
| - over 6 months | 4,973 |
| - more than 1 year | 25,516 |
| | <u><u>65,484</u></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**Shaw Plaza Arbitration**

On 19 April 2019, Fajarbaru Builder Sdn. Bhd. (a wholly owned subsidiary of the Fajarbaru Builder Group Berhad) (“FBSB”) was served with a Solicitor Letter of agreeable to resolve their differences and disputes by way of arbitration proceedings to Shaw Plaza Sdn. Bhd. (“SPSB”).

The Solicitor Letter to SPSB to refer the disputes or differences arising from the Contract and Mutual Termination Agreement dated 25 May 2015 (“MTA”), relating to the Shaw Parade Project to arbitration. FBSB has indicated to SPSB that they have a claim against SPSB amounting to RM22.8 million, in addition to other damages, costs, interests and other expense claims.

B13 Dividend

An interim single tier dividend of 1.5 sen per ordinary share be declared in respect of the financial year ending 30 June 2020.

The interim dividend will be paid on 30 December 2019 to the shareholders whose name appear in the Record of Depositors of the Company on 9 December 2019.

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 30/09/2019 RM'000 | 3 months Ended 30/09/2018 RM' 000 | 3 months Ended 30/09/2019 RM000 | 3 months Ended 30/09/2018 RM'000 |
| Net profit attributable to Owners of the Company | (2,197) | 4,735 | (2,197) | 4,735 |
| Weighted Average Number of shares at the end of the period ('000) | 372,775 | 372,773 | 372,775 | 372,773 |
| Weighted Average Number of shares of conversion of ESOS to shares ('000) | * | 119,228 | * | 119,228 |
| Adjusted number of ordinary shares in issue and issuable ('000) | 372,775 | 492,001 | 372,775 | 492,001 |
| Basic (loss) / earnings per share (sen) | (0.59) | 1.27 | (0.59) | 1.27 |
| Diluted (loss) / earnings per share (sen) | (0.59) | 0.96 | (0.59) | 0.96 |

* The potential conversion of Employee Share Option Reserve are anti-dilutive as their exercise prices are higher than the average market price of the Company's ordinary shares during the current financial year. Accordingly, the exercise of Employee Share Option Reserve have been ignored in the calculation of dilutive earnings per share.

B15 Profit before taxation

| | Current Year Quarter 30/09/2019 RM'000 Unaudited | Current Year To-date 30/09/2019 RM'000 Unaudited |
|--|--|--|
| Profit before tax is arrived at after charging/(crediting):- | | |
| Interest income | (218) | (218) |
| Depreciation | 3,352 | 3,352 |
| Interest expense | 637 | 637 |
| Unrealised (gain)/loss on foreign exchange | 686 | 686 |
| Unrealised (gain)/loss on investment fund | (15) | (15) |

B16 Authorisation for issue

The Board of Directors authorised the issue of this unaudited interim financial report on 20 November 2019.

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

Dato' Ir Low Keng Kok
Chairman

Kuala Lumpur
20 November 2019