

PERMAJU INDUSTRIES BERHAD
(Incorporated in Malaysia) Company No. 379057-V

**INTERIM REPORT FOR THE FINANCIAL QUARTER
ENDED 31ST MARCH 2019**

*NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD
ENDED 31ST MARCH 2019*

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. BASIS OF PREPARATION

The interim financial statements of the Group 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.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31st December 2017. 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 31st December 2017.

Following the change in financial year end from 31 December to 30 June, the next set of audited financial statements shall be for a period of 18 months from 1 January 2018 to 30 June 2019 and thereafter, to end on 30 June each year.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Group for the financial period ended 31st March 2019 are prepared in accordance with the Malaysian Financial Reporting Standards (“MFRS”) Framework. The date of transition to the MFRS Framework was on 1 January 2017.

The Group has consistently applied the same accounting policies in its opening MFRS statement of financial position as at 1 January 2017 and throughout all comparable interim periods presented as if these policies had always been in effect. Comparative information in these interim financial statements have been restated to give effect to these changes and the financial impact on the transition from FRS in Malaysia to MFS as disclosed as follows:

Biological assets

Prior to adoption of MFRS 141, biological assets are measured at cost less accumulated impairment losses. With the adoption of MFRS 141, the biological assets are measured at fair value less cost to sell. Any changes in fair value less cost to sell of the biological assets are recognized in profit or loss.

The carrying amount of the biological assets as at 31 December 2016 and 2017 had been stated at fair value less cost to sell as the new carrying amounts were lower than the recoverable amounts when impairment assessments were performed. Therefore, there was no adjustment to be made to restate the biological assets of the Group upon adoption of MFRS 141.

2. SIGNIFICANT ACCOUNTING POLICIES (Cond.t)

MFRS 9: Financial Instruments

MFRS 9 replaces FRS 139: Financial Instruments: Recognition and Measurement bringing together three aspects of the accounting for financial instruments: (a) classification and measurement; (b) impairment; and (c) hedge accounting. MFRS 9 replaces the “incurred loss” model in MFRS 139 with an “expected credit loss” model. The expected credit loss model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised. The adoption of this new MFRS 9 have not resulted in any significant impact on the financial statement of the Group.

MFRS 15: Revenue from Contracts with Customers

Upon adoption of MFRS 15, the Group recognises the revenue from contracts with customers when or as the Group transfers goods or services to a customer, measured at the amount to which the Group expects to be entitled, according to the term and condition stipulated in the contracts with customers. Depending on whether certain criteria are met, revenue is recognised over time, in a manner that depicts the Group’s performance; or at a point in time, when control of the goods or services is transferred to the customers. The adoption of this new MFRS 15 have not resulted in any material impact on the financial statements of the Group.

3. AUDIT REPORT

The audit report of the Group’s annual financial statements for the year ended 31st December 2017 was not subject to any qualification.

4. SEASONAL OR CYCLICAL FACTORS OF INTERIM OPERATIONS

The Group’s business operations for the period ended 31st March 2019 have not been materially affected by seasonal or cyclical factors, other than the slowdown in property sales. Also, the car brands we distribute had a mixed performance in their market share in the Total Industry Volume (TIV) compared to last period.

5. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group for the financial quarter ended 31st March 2019.

6. EFFECTS OF CHANGES IN ESTIMATES

There were no changes in estimates that have a material effect in the financial quarter ended 31st March 2019.

7. CHANGES IN DEBTS AND EQUITY SECURITIES

During the current quarter ended 31st March 2019, there were no issuances, cancellations, repurchases, resale and repayments of debts and equity securities. The total number of shares bought back and held as treasury shares as at 31st March 2019 was 8,672,500 shares. The shares bought back are being held as treasury shares in accordance with Section 127 of the Companies Act 2016.

8. DIVIDEND PAYMENT

There was no dividend paid for the current quarter and financial period ended 31st March 2019.

9. CARRYING AMOUNT OF REVALUED ASSETS

The Group has revalued its leasehold land during the last financial year based on valuations carried out by an independent professional valuer on an open market value basis during that financial period.

10. SUBSEQUENT EVENTS

There were no material events subsequent to the interim financial report under review as at the date of this announcement.

11. OPERATING SEGMENTS

The Group has four reportable segments, namely automotive, timber, property development and others which involved in Group-level corporate services, treasury functions and investments in marketable securities, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately.

(a) Information about reportable segments

| | For the period ended 31.03.2019 | | | | | |
|-----------------------|----------------------------------|------------------------------|---|------------------------------|--|-----------------------------|
| | Automotive 31.03.19 RM'000 | Timber 31.03.19 RM'000 | Property Development 31.03.19 RM'000 | Others 31.03.19 RM'000 | Adjustments and elimination 31.03.19 RM'000 | Total 31.03.19 RM'000 |
| External revenue | 95,875 | - | 2,269 | - | - | 98,144 |
| Inter segment revenue | - | - | - | - | - | - |
| Segment profit/(loss) | 442 | 6 | (2,824) | (2,476) | (83) | (4,935) |
| Segment assets | 20,425 | 38,250 | 84,740 | 104,689 | (34,341) | 213,763 |

12. CHANGES IN COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the current quarter ended 31st March 2019.

13. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets of the Group since the last statement of financial position as at 31st March 2019.

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

14. REVIEW OF PERFORMANCE

a. Quarter Comparison

The Group's revenue for the current quarter of RM16.26 million is due to revenue from the Automotive Division.

The Group registered a pre-tax loss of RM0.13 million for the current quarter.

b. Period-to-date Comparison

In the current financial 15-month period ended 31 March 2019, the Group recorded revenue of RM98.14 million and a pre-tax loss of RM4.93 million against revenue of RM69.70 million and pre-tax loss of RM6.80 million in the previous financial year ended 31st December 2017. The Group's loss before taxation for the period ended 31st March 2019 of RM5.03 million was mainly attributed to the pre-tax loss of the Property Development Division of RM2.82 million and the Automotive Division pre-tax profit of RM0.44 million. The Company's pre-tax loss of RM2.47 million also contributed to the Group loss before taxation for the period ended 31st March 2019.

15. COMPARISON WITH IMMEDIATE PRECEDING QUARTER'S RESULTS

The Group's current quarter revenue of RM16.26 million against the preceding quarter revenue of RM19.28 million, was mainly due to lower automotive sales which is consistent with the industry as reported by The Malaysian Automotive Association (MAA). The Group's loss before taxation for the current quarter of RM0.15 million was mainly attributed to the profit before taxation of Automobile Division of RM0.58 million and loss before taxation of Property Development Division of RM0.46 million. Comparatively, in the preceding quarter the loss before taxation of RM1.99 million was mainly attributed to the loss before taxation of Automobile Division of RM0.50 million and loss before taxation of Property Development Division of RM0.54 million.

In the Automotive Division for current quarter, the vehicles sales declined as compared to the previous quarter. While for Property Division shows no unit sales for current and previous quarter.

16. BUSINESS PROSPECTS

MAA is of the view that the market for passenger vehicles will be flat in 2019 as compared to 2018. This is as a result of forecasted marginal growth in GDP by the Malaysia Government for 2019, weaker Ringgit and moderation in consumer's spending in light of economic uncertainties and inflationary pressures.*

The property sector is expected to be challenging due to weak demand and oversupply market.

In addition to the above, the rights issue (refer to Note 21) is expected to provide additional working capital which will be positive for the Group operations moving forward. Barring any unforeseen circumstances, the Board expect the results of the Group to be satisfactory.

* Market review for 2018 and Outlook for 2019 Report by the Malaysian Automotive Association

17. PROFIT FORECAST OR PROFIT GUARANTEE

This is not applicable to the financial quarter under review.

18. INCOME TAX BENEFIT

| | Current Year Quarter 31.03.2019 RM'000 | Cumulative Year To Date 31.03.2019 RM'000 |
|---|---|--|
| Income tax | - | - |
| Under/(Over) provision in previous year | - | - |
| Deferred tax | (20) | (100) |
| | <u>(20)</u> | <u>(100)</u> |

19. LOSS FOR THE PERIOD

Loss for the period is arrived at after charging/(crediting):

| | Current Year Quarter 31.03.2019 RM'000 | Cumulative Year To Date 31.03.2019 RM'000 |
|--|---|--|
| Interest income | (1) | (2) |
| Finance costs | 110 | 939 |
| Depreciation and amortization | 177 | 1,146 |
| Impairment for and write off of | (110) | (28) |
| Loss / (Gain) on disposal of property, plant and equipment | 6 | (67) |

20. SALE OF UNQUOTED INVESTMENTS AND PROPERTIES

There were no sales of unquoted investments and properties for the financial quarter under review.

21. CORPORATE PROPOSALS

At the Extraordinary General Meeting held on 29 June 2018, the shareholders of the Company have approved the Proposed renounceable rights issue of up to 936,309,855 new Irredeemable Convertible Preference Shares in Permaju (“ICPS”) (“Rights ICPS”) at an issue price of RM0.05 per Rights ICPS together with up to 93,630,985 free detachable Warrants (“Warrants”) on the basis of 10 Rights ICPS together with 1 free Warrant for every 2 existing ordinary shares in Permaju held by the entitled shareholders of Permaju (“Proposed Rights Issue of ICPS with Warrants”) and the Proposed Settlement of debt owing to Tan Sri Datuk Chai Kin Kong and Dato’ Chua Tiong Moon in the aggregate sum of RM22,248,918 to be fully satisfied via the issuance of 444,978,360 ICPS (“Settlement ICPS”) at an issue price of RM0.05 per Settlement ICPS (“Proposed Settlement”).

On 8 October 2018, the Company had submitted an application to Bursa Securities to seek an extension of time to implement and complete this exercise. On 12 October 2018, Bursa Securities approved the extension of time of 6 months from 15 November 2018 up to 15 May 2019.

On 2 May 2019, the Company had submitted a second application to Bursa Securities to seek an extension of time to implement and complete this exercise. On 16 May 2019, Bursa Securities approved a further extension of 6 months till 15 November 2019.

22. LOANS AND BORROWINGS

| | As at 31.03.2019 RM'000 | As at 31.12.2017 RM'000 |
|-----------------------------------|-------------------------------|-------------------------------|
| Current | | |
| - Bank overdrafts | 2,006 | 2,380 |
| - Obligation under finance leases | 30 | 261 |
| - Bank loans | 2,430 | 11,744 |
| | <u>4,466</u> | <u>14,385</u> |
| Non-current | | |
| - Obligation under finance leases | - | 168 |
| - Bank loans | - | - |
| | <u>-</u> | <u>168</u> |

The borrowings are secured.

23. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at the date of this announcement.

24. CHANGES IN MATERIAL LITIGATION

There were no material changes in the following litigation where:

David Shen I-Tan, practicing under Arkitek Konsult Sabah (“Claimant”), had on 22nd November 2013 initiated an arbitration proceeding against Hardie, for wrongful termination of its services as an architect. The Claimant is claiming for fees with interest as well as loss of income, amounting to RM11,400,000.00 (“Breach of Contract Arbitration”).

The Claimant had also on 17th November 2014 initiated an arbitration proceeding against Permaju for tortious conduct by Permaju in inducing Hardie to breach a contract of services against the Claimant. The Claimant is claiming against Permaju for damages comprising of (a) RM2,590,724.04, being the outstanding professional fees allegedly due to the Claimant and (b) RM9,841,702.83 together with interest and cost for loss of income for balance of work prematurely terminated (“Permaju Arbitration”).

In respect of both the above-mentioned arbitration proceedings, the parties have agreed that the issue of liability for the Breach of Contract Arbitration will be determined first before the Permaju Arbitration. In this respect, no award will be made in relation to the Breach of Contract Arbitration on the quantum payable to either the Claimant or the Respondent at this stage. In the event that Hardie is successful in respect of the Breach of Contract Arbitration, then the Permaju Arbitration will come to an end.

On 21st May 2018, Hardie’s solicitors have informed Hardie that the arbitrator has given a partial award on the Breach of Contract Arbitration (“Partial Award”) and held that Hardie had wrongfully terminated the Claimant’s for its services and has awarded costs in the cause in the final award to the Claimant. Hardie’s solicitors have confirmed that there has been no award made by the arbitrator in respect of the quantum of damages payable to the Claimant in relation to the Breach of Contract Arbitration. Hardie’s solicitors also confirmed that there are no directions from the arbitrator in respect of the Permaju Arbitration.

Hardie’s solicitors are of the view that there are reasonable chances of the Partial Award being set aside since there are errors of law in issues of jurisdiction. Hardie’s solicitors have filed an application to set aside the Partial Award at the Kota Kinabalu High Court and have written to the High Court for the Grounds of Decision. The Court had adjourned the matter until further notice.

25. DIVIDEND PAYABLE

No interim ordinary dividend has been declared for the financial period ended 31st March 2019 (31st December 2017 : Nil)

26. LOSS PER ORDINARY SHARE

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of ordinary shares in issue during the period.

| | Individual Quarter | | Cumulative Quarter | |
|--|---------------------------------------|---|---------------------------------------|---|
| | Current Year Quarter 31.03.2019 | Preceding Year Quarter 31.03.2018 | Current Year Quarter 31.03.2019 | Preceding Year Quarter 31.03.2018 |
| Net profit / (loss) for the period (RM'000) | 6 | N/A | (4,033) | N/A |
| Weighted average number of ordinary shares in issue ('000) | 187,262 | N/A | 187,262 | N/A |
| Basic earnings/(loss) per share (sen) | <u>0.00</u> | <u>N/A</u> | <u>(2.15)</u> | <u>N/A</u> |

The basic loss per share is not subject to dilution as there is no dilutive effect of any potential ordinary shares.

27. REALISED AND UNREALISED LOSSES DISCLOSURE

| | As at 31.03.2019 RM'000 | As at 31.12.2017 RM'000 |
|---|-------------------------------|-------------------------------|
| Total retained accumulated losses of Permaju Industries Berhad and its subsidiaries : | | |
| - Realised | (100,910) | (96,877) |
| - Unrealised | <u>(7,026)</u> | <u>(7,026)</u> |
| Total group accumulated losses as per consolidated accounts | <u><u>(107,936)</u></u> | <u><u>(103,903)</u></u> |

28. AUTHORISATION FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 30th May 2019.