

STONE MASTER CORPORATION BERHAD *(Company No. 498639-X)*
QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30TH JUNE 2017

NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of Preparation

These condensed consolidated interim financial statements (collectively “this Interim Financial Report”) have been prepared in accordance with the applicable disclosure provisions of the Listing Requirements of the Bursa Malaysia Securities Berhad and MFRS 134, Interim Financial Reporting in Malaysia and with IAS 34, Interim Financial Reporting.

This Interim Financial Report for the financial quarter ended 30 June 2017 (“the Current Quarter”) has not been audited and does not include all information required for full annual financial statements. The same should be read in conjunction with the annual audited Financial Statements of the Group for the financial year ended 30 September 2016 (“2016 Annual Financial Statements”)

These explanatory notes which are attached to this Interim Financial Report provide an explanation of the events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the last financial year ended 30 September 2016.

A2. Changes in Accounting Policies

During the current financial year, the Company has adopted the following new accounting standards and/or interpretations (including the consequential amendments, if any):-

MFRSs and/or IC Interpretations (Including The Consequential Amendments)

Amendments to MFRS 119: Defined Benefit Plans – Employee Contributions

Annual Improvements to MFRSs 2010 – 2012 Cycle

Annual Improvements to MFRSs 2011 – 2013 Cycle

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) did not have any material impact on the Company’s financial statements.

The Company has not applied in advance the following accounting standards and/or interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (“MASB”) but are not yet effective for the current financial year: -

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 9 Financial Instruments (IFRS 9 issued by IASB in July 2014)	1 January 2018
MFRS 14 Regulatory Deferral Accounts	1 January 2016
MFRS 15 Revenue from Contracts with Customers	1 January 2018
MFRS 16 Leases	1 January 2019
Amendments to MFRS 10 and MFRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016

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Amendments to MFRS 10, MFRS 12 and MFRS 128 (2011): Investment Entities – Applying the Consolidation Exception	1 January 2016
Amendments to MFRS 15: Effective Date of MFRS 15	1 January 2018
Amendments to MFRS 101: Presentation of Financial Statements – Disclosure Initiative	1 January 2016
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 116 and MFRS 141: Agriculture – Bearer Plants	1 January 2016
Amendments to MFRS 127 (2011): Equity Method in Separate Financial Statements	1 January 2016
Annual Improvements to MFRSs 2012 – 2014 Cycle	1 January 2016

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Company upon their initial application.

A3. Declaration of Audit Qualification

The auditors had qualified the Annual Financial Report as at 30 September 2016 in view that the Company triggered the criteria (“PN17 Criteria”) prescribed in Paragraph 2.1(e) of Practice Note 17 and Paragraph 8.04 of the Main Market Listing Requirements of Bursa Securities. The PN17 Criteria was triggered as a result of the Auditors having expressed an emphasis of matter on the Company’s ability to continue as a going concern in the Company’s audited financial statements for the financial year ended 30 September 2015 (that was announced on 29 February 2016), and that based on the Company’s fourth quarterly results for the period ended 30 September 2016 announced on 30 November 2016, the Company’s shareholders’ equity on a consolidated basis being 50% or less of the issued and paid-up capital of the Company.

A4. Seasonal or Cyclical Factors

The performance and the business operations within the Group were not significantly affected by any material seasonal or cyclical factors for the Current Quarter.

A5. Nature and Number of Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows that is unusual because of their Nature, Size or Incidence

There is no other unusual item affecting the Group for the Current Quarter.

A6. Nature and Amount of Changes in estimates reported in prior Interim Period(s) of the current Financial Year or prior Financial Year which may have a material effect in the current Interim Period

There were no material changes in the estimates for the Current Quarter.

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A7. Issuance, Cancellation, Repurchases, Resale and Repayments of Debt and Equity Securities

There is no change in the position of the Debts and Equity Securities for this Current Quarter following the disposal of the Company's rights to complete procurement of exclusive agency on 6 December 2016.

As hitherto announced, currently the Company is indebted in the sum totaling RM21.44 million comprising the sum due and owing to three (3) creditors (collectively "the Creditors") namely, RM1.44 million owing to Dato' Eii Ching Siew @ Yii Ching Siew ("Dato' Eii") as advances to the Company, RM18 million due to Starfield Capital Sdn Bhd as well as RM2 million due to Antico Stone Sdn Bhd.

A8. Dividend Paid

No interim dividend was paid by the Company for the Current Quarter.

A9. Segmental Reporting

No geographical segmental analysis is presented as the Group operates principally within one industry wholly in Malaysia.

A10. Valuation of Property, Plant and Equipment

The valuation of property and assets of the Group have been brought forward without amendments from the previous annual financial statements to the Current Quarter.

A11. Subsequent Material Events

Other than as mentioned in Notes A3 and A7 above, and further as reported in the 2016 Annual Financial Statements, there have been no other material events subsequent to the Current Quarter ended 30 June 2017.

A12. Changes in Composition of the Group

There are no changes in the composition of the Group for the Current Quarter.

A13. Contingent Liabilities/Contingent Assets

There have been no changes and no material contingent liabilities/assets incurred by the Group for the Current Quarter.

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**ADDITIONAL INFORMATION REQUIRED BY BURSA MALAYSIA SECURITIES
BERHAD'S LISTING REQUIREMENTS**

B1. Review of Performance & Results Comparison with corresponding quarter of preceding year ended 30 June 2016

The results of the Current Quarter showed that the revenue of the Group stood only at RM12.53 million as compared to RM19.50 million for the same period of the preceding year, representing a decrease of RM6.97 million or 35.74%.

The Group revenue for the nine months ended 30 June 2017 was RM44.23 million, representing a reduction of RM14.73 million or 24.98% compared with RM58.96 million in the period of the corresponding preceding year.

Factors attribute to the decrease in revenue for the Current Quarter under review and the corresponding year can be summarized as below:

- (a) A decrease in revenue from the conventional trading of building materials resulted by the intensified price competition and deferment of the projects due to the sluggish properties market.
- (b) The effect of the current sluggish economy and the tightening credit approval by the financial institution have weakened the local market demand especially on the medium and luxury residents. Such market situation is expected to continue in the short run due to the current property prices are general higher than the propensity income of the general income group.
- (c) The weakening of Ringgit against other major currencies did not inspire foreign investors to take opportunity to purchase properties in Malaysia and the effect of the sluggish economies activities on the regional and global basis. In addition, the recent capital control by the Chinese Government would have further negative import on properties market. The weaken Ringgit has caused the prices of cost of materials increased that the properties' prices would not reduce in the short run.

Nevertheless, the consolidated loss before taxation of RM1.65 million as at 30 June 2017 is very much lower than the losses of the same period of RM5.39 million of the preceding year. This is partly due to the effort in the benefit derived from the cessation of the unprofitable operation of one of its wholly owned subsidiaries and other reason mentioned above.

B2. Current Year Prospects

The Company will continue to take all reasonable steps and precautions to mitigate the impact of the rising costs and to identify market competition in order to enhance the revenue base and expand business opportunity, as well as profitability.

The Company is also in the midst of formulating appropriate regularization plan to ameliorate from the PN17 status.

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B3. Variance of actual profit from forecast profit

No profit guarantee and profit forecast is required.

B4. Taxation

	Current Quarter Ended 30 June 2017	Nine (9) Months Cumulative to 30 June 2017
	RM'000	RM'000
Current tax expenses	-	310
Deferred tax expenses	-	-
	-	310

B5. Profit or Loss from Sales of Unquoted Investments or Properties

There were no sales of unquoted investment or properties for the Group.

B6. Purchase or disposal of quoted securities

There is no purchase or disposal of quoted securities for the Current Quarter.

B7. Corporate Proposal and Utilization of Proceeds

The Company will formulate the regularization plan in accordance with the provision of PN17 and to make regular announcements accordingly.

B8. Group Borrowings and Debt Securities

The total Group's borrowings as at 30 June 2017 are as follows: -

	Short Term Borrowings (Less than 12 months)	Long Term Borrowings (More than 12 months)	Total
	RM'000	RM'000	RM'000
Secured: -			
Bank Overdrafts	1,870	-	1,870
Trade Bills Payable	8,201	-	8,201
Term Loan	1,003	3,067	4,070
Hire Purchase	<u>141</u>	<u>220</u>	<u>361</u>
	<u>11,215</u>	<u>3,287</u>	<u>14,502</u>

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B9. Off Balance Sheet Financial Instruments

There were no financial instruments with off balance sheet risk as at the latest practicable date, which is not earlier than seven (7) days from date of issuance of this Interim Financial Report.

B10. Changes in Material Litigation

(a) Litigation with Dato' Tan Wei Lian

On 11 March 2015, the Company filed a lawsuit against a former Director, Dato' Tan Wei Lian for anticipatory breach and repudiation of his irrevocable and unconditional Letter of Undertaking dated 28 April 2014. The Company seeks for an order for assessment of damages. The Statement of Defence of Dato' Tan Wei Lian was received on 22 April 2015. On 30 April 2015, the Company served the reply to the Statement of Defence.

The trial for this suit was to take place sometime in August 2017, but however the parties involved have sought for mediation and the High Court has directed the parties concerned to mediate before the Judge on 30 August 2017. As such, there is no material impact on the current quarter under review.

(b) Litigation with Quantum March Sdn. Bhd. (Suit No. WA-23NCC-9-03/2017)

On 10 April 2017, the Company received a writ of summon dated 28 March 2017 and a Statement of Claim dated 27 March 2017 from Quantum March Sdn Bhd against the Company for conspiracy to commit the torts of defaming, including breach of contract and causing economic injury together with three (3) other defendants (“**Main Suit**”).

The Company has engaged an independent firm of solicitors to represent the Company in the claims.

On 18 July 2017, the Kuala Lumpur High Court has dismissed the Plaintiff's application for *inter parte* injunction pending disposal of the Main Suit.

The Company has also via its solicitors filed an application to strike out the Writ of Summons and Statement of Claim of the Suit (“**Application**”), and the Kuala Lumpur High Court has directed Quantum March Sdn Bhd to file an Affidavit in Reply to the Application by 5 September 2017 and the Company to file a reply to the same, if necessary, by 12 September 2017.

The Writ and Statement of Claim of the Main Suit has been fixed for case management on 8 September 2017 and the Application has been fixed for hearing on 12 October 2017.

The trial will not take place until the disposal of the Application. As such, there is no material impact on the current quarter under review.

(c) Litigation with Dato' Eii Ching Siew @ Yii Ching Siew
(Suit No. WA-24NCC-144-04/2017)

On 19 April 2017, the Company was served with sealed copy of the Originating Summons dated 17 April 2017 from Dato' Eii Ching Siew @ Yii Ching Siew against

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the Company pertaining to his directorship to the Company. The Kuala Lumpur High Court has on 28 June 2017 granted, among others, that (“**Order**”):

1. Dato’ Eii Ching Siew @ Yii Ching Siew remains a Director of the Company pursuant to his appointment on 31 March 2016, and continuing until such time as Dato’ Eii Ching Siew @ Yii Ching Siew has vacated his office as a Director under one of the circumstances as prescribed in Section 208(1) of the Companies Act 2016 (“**Lawful Events**”);
2. until one of the Lawful Events shall have taken place, Dato’ Eii Ching Siew @ Yii Ching Siew is entitled to enjoy and exercise all privileges and rights as are accorded to Directors of the Company under the Company’s Articles of Association, the Companies Act 2016 and at common law, unimpeded howsoever and by whatever means by the Company and its officers, servants and/or agents;
3. any purported meetings of the Company’s Board of Directors and all resolutions purportedly passed by the Company’s Board of Directors whether expressly or otherwise and whether at a physical meeting or by circular resolution or otherwise, from 30 March 2017 onwards when Dato’ Eii Ching Siew @ Yii Ching Siew was excluded whether constructively or otherwise from participation as a Director of the Company, are invalid, null and void;
4. the Company and its officers, servants and/or agents, be restrained from giving effect to any resolution passed by the Company’s Board of Directors whether expressly or otherwise and whether at a physical or by circular resolution or otherwise, from 30 March 2017 onwards when the Dato’ Eii Ching Siew @ Yii Ching Siew was excluded whether constructively or otherwise from participation as a Director of the Company;
5. the Company and its officers, servants and/or agents, cause the reversal of any action taken to give effect to any purported resolution passed by the Board of Directors of the Company whether expressly or otherwise and whether at a physical meeting or by circular resolution or otherwise, from 30 March 2017 onwards when Dato’ Eii Ching Siew @ Yii Ching Siew was excluded whether constructively or otherwise from participation as a Director of the Company; and
6. Costs of RM15,000.00 to be borne and paid by the Company.

There is no further step being taken by the Company in this suit. As such, there is no material impact on the current quarter under review.

(d) Litigation with Starfield Capital Sdn Bhd (Suit No. WA-22NCC-195-05/2017)

Starfield Capital Sdn Bhd has filed a Writ and Statement of Claim against the Company claiming, among others, for RM18,000,000.00 and an Impugned Consent Judgment has been entered on 30 May 2017 by the Company and the Company is alleging that the Impugned Consent Judgment was entered, among others, without proper authority. The Company has on 21 June 2017 filed an application at the Kuala Lumpur High Court through its independent solicitors to obtain order to, among others, stay the Impugned Consent Judgment (“**Application**”) pending disposal of Suit No. WA-

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22NCC-232-06/2017 filed by the Company (“**New Action**”) to set aside the Impugned Consent Judgment.

On 22 August 2017, the Kuala Lumpur High Court has allowed the Application and ordered that the whole of the Impugned Consent Judgment be stayed until the New Action is finally disposed of.

As the Application is to stay the Impugned Consent Order pending disposal of the New Action, until the New Action is disposed of, there is no material impact on the current quarter under review.

- (e) Litigation with Starfield Capital Sdn Bhd, Dato’ Koh Mui Tee, Datin Chan Chui Mei and Datuk Lee Hwa Cheng (Suit No. WA-22NCC-232-06/2017)

The Company, had on 19 June 2017, filed a Writ and Statement of Claim at the High Court Kuala Lumpur Summons No. 22NCC-232-06/2017 (“**New Action**”) through the Company’s independent solicitors to pursue legal actions against Dato’ Koh Mui Tee (as 1st Defendant), Datuk Lee Hwa Cheng (as 2nd Defendant), Datin Chan Chui Mei (as 3rd Defendant), and Starfield Capital Sdn Bhd (as 4th Defendant).

The Company in the New Action is seeking for the following reliefs:-

1. That the Consent Judgment entered into between Starfield Capital Sdn Bhd and the Company via Suit No. WA-22NCC-195-05/2017 on 30 May 2017 be set aside;
2. In the alternative, that Dato’ Koh Mui Tee and Datuk Lee Hwa Cheng, jointly and severally indemnify the Company in the sum of RM18 million together with interest thereon as per the Consent Judgment and an order that the same be paid forthwith by Dato’ Koh Mui Tee and Datuk Lee Hwa Cheng, jointly and severally to Starfield Capital Sdn Bhd;
3. Exemplary damages against Dato’ Koh Mui Tee and Datuk Lee Hwa Cheng for breaches of fiduciary duties to the Company in causing the Company to enter into the Consent Judgment;
4. The cost of the action on a full indemnity basis;
5. Interests on damages that might be awarded by the Honourable Court; and
6. Such further and other reliefs that the Honourable Court may deem fit.

The Kuala Lumpur High Court has fixed 4 September 2017 for case management.

The trial for this suit will only be fixed on or after 4 September 2017. Until the disposal of the New Action, there is no material impact on the current quarter under review.

B11. Dividend

No interim and final dividend was recommended by the Board of Directors for the Current Quarter.

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B12. Earnings per share

The Basic Earnings per Share and Diluted Earnings per Share of the Group remain the same for the reporting Current Quarter as there was no effect of dilutive potential ordinary shares.

	Current Quarter ended 30 June 2017	Nine (9) months ended 30 June 2017
Net Profit/(Loss) attributable to ordinary shareholders (RM'000)	(743)	(1,962)
Weighted Average Number of ordinary shares issued ('000)	89,905	89,905
Basic Profit/(Loss) per ordinary share (Sen)	(0.83)	(2.18)