

STONE MASTER CORPORATION BERHAD *(Company No. 498639-X)*
QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 JUNE 2018

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 2018 (“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 2017 (“2017 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 2017.

A2. Declaration of Audit Qualification

The auditors had qualified the Annual Financial Report as at 30 September 2016 in view that the Company has 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 the 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.

A3. 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.

A4. 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.

A5. 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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A6. 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, the Company had made full settlement on the balance of the remaining outstanding amount of loan of RM2.0 million owing to Antico Stone Sdn Bhd and to Dato' Eii Ching Siew @ Yii Ching Siew (Dato' Eii), an Executive Director of the Company, of which the balance of the remaining outstanding amount of loan of RM1.44 million owing to Dato' Eii has been fully settled.

However, Dato Eii has further granted to the Company additional advances of RM0.46 million for working capital purposes.

A7. Dividend Paid

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

A8. Segmental Reporting

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

A9. Valuation of Property, Plant and Equipment

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

A10. Subsequent Material Events

Other than as mentioned in Notes A2 and A6 above, and further as reported in the 2017 Annual Financial Statements, there have been no other material events subsequent to the Current Quarter ended 30 June 2018.

A11. Changes in composition of the Group

With the allotment of 19,215 ordinary shares in the share capital of Stone Kingdom Sdn. Bhd. (formerly known as Fastra Sdn. Bhd.) for a cash consideration of RM19,215.00 on 18 May 2018, the equity interest of S.P. Granite Sdn. Bhd., a wholly-owned subsidiary of the Company, held in Stone Kingdom Sdn. Bhd., has been reduced from 100% to 51%.

Save and except of the above, there were no other changes in the composition of the Group during the quarter under review.

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A12. 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 2017

The results of the Current Quarter showed that the revenue of the Group stood only at RM9.62 million as compared to RM12.53 million for the same period of the preceding year, representing a decrease of RM2.91 million or 23.2%. The decrease in the revenue was primarily due to slower performance resulting from lesser orders received from projects work and tougher market competitions in the Current Quarter under review.

The consolidated loss before taxation was RM1.5 million as compared to the consolidated loss of RM1.17 million for the same period of the preceding year corresponding quarter. The higher consolidated losses recorded for the Current Quarter under review was mainly due to the Group's decrease in other operating income as compared with its immediate preceding corresponding quarter.

However, the Group recorded a reduction in its operating expenses by RM2.23 million from RM11.00 million of its Current Quarter under review compared to RM13.23 million of its immediate preceding corresponding quarter which is mainly due to the reduction in its staff costs and administration expenses.

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 competitions in order to enhance the revenue base and expand business opportunities, as well as profitability.

With the change in government after the GE14, the Company is optimistic that the demand from the lower end affordable housing projects and the retail markets would be able to enhance reasonable growth within the construction sectors. The management is currently in discussions with a few property developers to secure contracts on new property projects.

The trading arm will be strengthened by reviving a currently dormant wholly owned subsidiary, Stone Design House Sdn Bhd.

To further complement the trading arm, the plant in Simpang Pulai, Ipoh which had ceased operation since June 2016 due to sustainable losses, has been recommissioned in mid-January 2018. New and modern machinery with higher production capacity and efficiency would be acquired and installed. The plant would provide services such as cutting, sizing, polishing and sanding of granite and marble. Barring unforeseen circumstances, the Company believed that the revival of the business operations of the plant would contribute favorably to the profitability of the Group.

In addition, the Company is also in the midst of formulating an appropriate regularization plan to uplift from its PN17 status.

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B3. Variance of actual profit from forecast profit

No profit guarantee and profit forecast are required.

B4. Taxation

	Current Quarter Ended 30.6.2018	9 Months Cumulative to 30.6.2018
	RM'000	RM'000
Current tax expenses	-	28
Deferred tax expenses	-	-
	-	-

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 where relevant accordingly.

B8. Group Borrowings and Debt Securities

The total Group's borrowings as at 30 June 2018 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	1,402	-	1,402
Trade Bills Payable	8,481	-	8,481
Term Loan	384	2,614	2,998
Hire Purchase	74	4	78
	<u>10,341</u>	<u>2,618</u>	<u>12,959</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 between the Company and Dato' Tan Wei Lian
(now known as Suit No. 22NCVC-491-09/2015)

The Company and Dato' Tan Wei Lian had on 21 September 2017 come to a consensus to resolve the matter amicably and the Company had agreed to withdraw the action against Dato' Tan Wei Lian. As such, there is no longer any material impact from this matter on the Company's quarterly results.

- (b) Litigation between the Company and Quantum March Sdn. Bhd.
(now known as Suit No. WA-23NCVC-9-03/2017)

The Company's Striking-Out Application against this Legal Suit was allowed by the Kuala Lumpur High Court on 18 May 2018. As such, prior thereto and thereafter, there was and there is no longer any material impact from this matter on the Company.

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

Since 28 June 2017 when the Company was served an Order by the Kuala Lumpur High Court that granted, amongst other matters, for Dato' Eii Ching Siew @ Yii Ching Siew to remain as a Director with effect from 31 March 2017, there has been no further actions taken by the Company in this suit. As such, there is no longer any material impact from this matter on the current quarter as well as future financial quarters.

- (d) Litigation between the Company and Starfield Capital Sdn Bhd
(Suit No. WA-22NCC-195-05/2017)

Starfield Capital Sdn Bhd ("**Starfield**") had 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 had on 21 June 2017 filed an application at the Kuala Lumpur High Court through its independent solicitors to obtain an order to, among others, stay the Impugned Consent Judgment ("**Application**") pending disposal of Suit No. WA-22NCC-232-06/2017 filed by the Company ("**New Action**" or "**Suit 232**") to set aside the Impugned Consent Judgment.

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

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Starfield had subsequently filed a Notice of Appeal dated 20 September 2017 to appeal against the order granted by the Kuala Lumpur High Court. The case management for the said Appeal was held on 8 December 2017 and the hearing of the Appeal has now been fixed for 18 April 2018.

The Company had filed an Affidavit in Support dated 23 March 2018 to adduce further evidence of which the first case management for the said application was heard on 30 March 2018 whereby the Court had directed Starfield to file in Affidavit in Reply by 10 April 2018 with the date of hearing of the Appeal proper being maintained on 18 April 2018.

On 18 April 2018, the hearing was heard and the High Court had dismissed the Starfield's Appeal against the stay of the execution of the Impugned Consent Judgement with a cost of RM5,000/-

As the Application is now to stay the Impugned Consent Order pending the disposal of Suit 232, unless and until Suit 232 is disposed of, there is presently no material impact on the current quarter under review.

- (e) Litigation between the Company and 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**" or "**Suit 232**") 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 ("**Starfield**") (as 4th Defendant).

The Company in **Suit 232** is seeking for the following reliefs:-

1. That the Consent Judgment entered into between Starfield 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 RM18.0 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;
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.

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The Kuala Lumpur High Court had fixed 6 March 2018, 7 March 2018, 8 March 2018, 13 March 2018 and 14 March 2018 to be the trial dates for the case (“**the Trial**”).

On 13 December 2017, the Company was served with an application filed by Datin Chan Chui Mei and Starfield to recuse the Learned Judge from hearing the Trial [**“Enclosure 29” or “the Recusal Application”**]. Dato’ Koh Mui Tee and Datuk Lee Hwa Cheng have filed an application to stay the proceeding pending disposal of Suit WA-22NCVC-608-09/2016 filed by the Securities Commission (“**the SC’s suit**”) [**“Enclosure 30”**].

Enclosure 29 were heard on 14 February 2018 and the Judge has deferred the decision for the Recusal Application until 23 February 2018. On 23 February 2018, the Judge has dismissed the Recusal Application with costs of RM3,000.00. On 23 February 2018, the Court has heard Enclosure 30 and dismissed Enclosure 30 with costs of RM2,000.00.

As for the application to add Dato’ Karen as Third Party, filed by the 1st Defendant and 2nd Defendant, the Judge had fixed 27 February 2018 as decision, after hearing it by way of *ex parte*. The Court had allowed the application for leave to issue a Third Party Notice to Dato’ Karen on 27 February 2018. The Judge had also given an order for parties to file in their respective witness statements by 27 February 2018. The Court had allowed until 2 March 2018 to file supplementary witness statement (if any).

On 2 March 2018, prior to commencement of the Trial date of 6 March 2018, Dato’ Koh Mui Tee and Datuk Lee Hwa Cheng had filed an application to stay the proceedings pending their Appeal against the decision of the Court in dismissing Enclosure 30 (“**Stay Application**”).

Ensuing therefrom, on 6 March 2018, prior to the commencement of the Trial, the hearing for the abovementioned Stay Application was heard and the Court had granted the stay until 26 June 2018 and if the Appeal was dismissed, the Trial will proceed on 27 June 2018, 28 June 2018, 23 July 2018, 24 July 2018 and 7 August 2018 before the Learned Judge.

Prior thereto, Datin Chan Chui Mei and Starfield had also filed a notice of appeal dated 23 March 2018 to plead against the decision of the High Court in dismissing their application to recuse the Judge (“**notice of appeal**”). The first case management for the said notice of appeal against the Recusal Application was fixed on 24 May 2018 which subsequently was brought forward to 2 May 2018 and the next case management subsequent thereafter was fixed for 28 May 2018.

The case management on the abovesaid notice of appeal was then heard where the Court had given the following directions:

- (i) The Company, the Respondent, to file affidavit in reply on or before 17 April 2018;
- (ii) Dato’ Koh Mui Tee and Datuk Lee Hwa Cheng, the appellants to file affidavit in reply on or before 2 May 2018;
- (iii) Submission to be filed by 11 May 2015; and
- (iv) Hearing of the application was fixed for 15 May 2018.

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On 28 May 2018, the Court had then fixed the next case management to be on 26 June 2018 for the Court to be updated on the status of the filing of the appeal records and grounds of judgement. The appellants had also filed a notice of motion to amend the notice of appeal to remove the name of Dato' Koh Mui Tee and Datuk Lee Hwa Cheng as the named appellants to which the Company did not oppose in the light of the fact that the amendments were merely to correct typographical errors in the said notice of appeal.

However, on 27 June 2018, the Company's solicitors, Messrs. Mun Hoe & Mar had filed a notice of application to discharge themselves from acting further for the Company and on 28 June 2018, the discharge application had been allowed by the Court and Messrs. Mun Hoe & Mar were officially discharged as the solicitors acting for the Company for this Suit 232 of which the case management was fixed for 7 August 2018.

On 7 August 2018, the Court was informed that Messrs. Nga Hock Cheh & Co was to be appointed as the new solicitors acting for the Company for Suit 232 to which notice of application for appointment was filed and allowed by the Court on 24 August 2018.

In this respect, the Trial dates on 27 June 2018, 28 June 2018, 23 July 2018, 24 July 2018 and 7 August 2018 were vacated and the Stay Application by Datin Chan Chui Mei and Starfield was struck out by the Court and has now become academic.

The Court has then fixed the new dates for the Trial to be on 4 December 2018, 5 December 2018, 6 December 2018, 21 January 2019, 22 January 2019, 23 January 2019, 24 January 2019 and 25 January 2019.

Until Suit 232 is disposed of and the Trial for the case to be heard on the new dates so fixed by the Kuala Lumpur High Court as abovementioned, 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.

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 30.6.2018	Nine (9) months ended 30.06.2018
Net (Loss) attributable to ordinary shareholders (RM'000)	(1,497)	(3,718)
Weighted Average Number of ordinary shares issued ('000)	89,905	89,905
Basic (Loss) per ordinary share (Sen)	(1.67)	(4.14)