

A. EXPLANATORY NOTES PURSUANT TO THE INTERIM FINANCIAL REPORT – IN COMPLIANCE WITH FINANCIAL REPORTING STANDARD (“FRS”)**A1. BASIS OF PREPARATION**

The unaudited interim financial statements have been prepared in accordance with the requirement of FRS 134 Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”) and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2015.

The significant accounting policies and methods of computation adopted in the unaudited interim financial statements are consistent with those adopted in the Group’s audited financial statements for the year ended 31 December 2015.

The following are accounting standards, amendments and interpretations that have been issued by the MASB but have not been adopted by the Group and the Company:

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2016

- FRS 14, Regulatory Deferral Accounts
- Amendments to FRS 5, *Non-current Assets Held for Sale and Discontinued Operations (2012 - 2014)*
- Amendments to FRS 7, *Financial Instruments: Disclosures (Annual Improvements 2012 – 2014 Cycle)*
- Amendments to FRS 10, *Consolidated Financial Statements*, FRS 12, *Disclosure of Interests in Other Entities* and FRS 128, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to FRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to FRS 101, *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to FRS 116, *Property, Plant and Equipment* and FRS 138, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to FRS 119, *Employees Benefit (Annual Improvements 2012 – 2014 Cycle)*
- Amendments to FRS 127, *Separate Financial Statements - Equity Method in Separate Financial Statements*
- Amendments to FRS 134, *Interim Financial Reporting (Annual Improvements 2012 – 2014 Cycle)*

FRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2018

- FRS 9, Financial Instruments (2014)

The Group and the Company plan to apply the abovementioned standards, amendments and interpretations:

- from the annual period beginning on 1 January 2016 for those standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2016, except for FRS 14, Amendments to FRS 5, Amendments to FRS 11 and Amendments to FRS 138 which are not applicable to the Group and the Company.

The Group and the Company's financial statements for annual period beginning on 1 January 2018 will be prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") issued by MASB and International Financial Reporting Standards.

The initial application of the accounting standards, amendments or interpretations are not expected to have any material financial impacts to the current period and prior period financial statements of the Group and the Company except as mentioned below:

Amendments to FRS 10, Consolidated Financial Statements, FRS 12, Disclosure of Interests in Other Entities and FRS 128, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception

The amendments to FRS 10, FRS 12 and FRS 128 require an investment entity parent to fair value a subsidiary providing investment-related services that is itself an investment entity, an intermediate parent owned by an investment entity group can be exempt from preparing consolidated financial statements and a non-investment entity investor can retain the fair value accounting applied by its investment entity associate or joint venture.

The Group is currently assessing the financial impact that may arise from the adoption of the amendments.

The Group and the Company fall within the scope of IC Interpretation 15, *Agreements for the Construction of Real Estate*. Therefore, the Group and the Company is currently exempted from adopting the MFRSs and is referred to as a "Transitioning Entity".

A2. AUDITORS' REPORT OF PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the financial statements for the year ended 31 December 2015 was not qualified.

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A3. SEASONAL OR CYCLICAL FACTORS

The Group's operations were not significantly affected by any seasonal or cyclical factors.

A4. UNUSUAL ITEMS

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

A5. MATERIAL CHANGES IN ACCOUNTING ESTIMATES

There were no changes in accounting estimates of amounts reported in prior interim period which have a material effect on the current financial period.

A6. ISSUANCE OR REPAYMENT OF DEBTS AND EQUITY SECURITIES

Save as disclosed below, there were no other issuance and repayment of debts and equity securities, shares buy-back, share cancellations, shares held as treasury shares or resale of treasury shares during the current financial period under review:

Share Buy-back

The Company had not purchased any of its own shares for the quarter ended 31 March 2016.

At the date of this report, a total of 12,377,400 shares purchased back were held as treasury shares with a total cost of RM5,360,415. None of the treasury shares held were resold or cancelled during the quarter under review and up to the date of this report.

A7. DIVIDEND PAID

No dividend has been paid for the current quarter ended 31 March 2016.

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A8. SEGMENTAL REPORTING

Segmental analysis of the results and assets employed for 3 months ended 31 March 2016.

Business Segment	Construction RM'000	Property Development RM'000	Eliminations RM'000	Consolidated RM'000
Revenue from external customers	-	16,352	-	16,352
Inter-segment revenue	15,636	-	(15,636)	-
Total revenue	15,636	16,352	(15,636)	16,352
Segment result	1,550	3,513	202	5,265
Unallocated income/(expenses)				(88)
Interest income				114
Profit from operations				5,291
Finance cost				(26)
Profit before tax				5,265
Taxation				(1,448)
Net profit for the period				3,817

A9. VALUATIONS OF PROPERTY, PLANT AND EQUIPMENT

The values of property, plant and equipment have been brought forward without amendments from the previous financial statements for the year ended 31 December 2015.

A10. SUBSEQUENT MATERIAL EVENTS

There were no material events subsequent to the balance sheet date and up to the date of issuance of this Interim Financial Report.

A11. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of the Group for the quarter ended 31 March 2016 including business combination, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operation.

A12. CHANGES IN CONTINGENT LIABILITIES OR CONTINGENT ASSETS

	Quarter Ended 31.03.2016 RM'000	Financial Year Ended 31.12.2015 RM'000
A Contingent Liabilities		
Corporate guarantee for credit facilities and guarantee granted to subsidiaries of the company	1,319	2,075

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B. BURSA MALAYSIA LISTING REQUIREMENTS

B1. REVIEW OF THE PERFORMANCE

A comparison of the results of current quarter ended 31 March 2016 and the corresponding periods in the preceding year is as follows:

	Current Year Qtr 01.01.2016 – 31.03.2016 RM'000	Preceding Year Qtr 01.01.2015 – 31.03.2015 RM'000	Current Year 01.01.2016 – 31.03.2016 RM'000	Preceding Year 01.01.2015 – 31.03.2015 RM'000
Revenue	16,433	14,143	16,433	14,143
Profit before tax	5,265	4,939	5,265	4,939
Profit after tax (before Minority Interest)	3,817	3,864	3,817	3,864
Profit attributable to equity holders of the parent	3,817	3,864	3,817	3,864

Current year to-date vs previous year to-date

Pre-tax profit for the current quarter ended 31 March 2016 of RM5.3 million was marginally higher by RM0.4 million as compared to the previous year's corresponding period of RM4.9 million. This was mainly due to higher volume of work done during the current quarter.

After-tax profit for the current quarter ended 31 March 2016 of RM3.8 million was marginally lower than the previous year's corresponding quarter of RM3.9 million.

Performance for the respective operating business segments for the current year to date as at 31 March 2016 as compared to the previous year's corresponding period is analysed as follows:

- 1) Property development operations - the segmental profit reduced by RM0.50 million to RM3.5 million from the preceding year's corresponding period was due to sales mix of lower margin units in the current period.
- 2) Construction operations - segmental profit of RM1.5 million was marginally higher than the preceding year's corresponding period due to higher volume of work done in the current year to date.

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B2. MATERIAL VARIATION AGAINST THE PRECEDING QUARTER RESULTS

A comparison of the quarterly results of the current and preceding quarter is as follows:

	Current Quarter 01.01.2016 – 31.03.2016 RM'000	Preceding Quarter 01.10.2015 – 31.12.2015 RM'000
Revenue	16,433	27,272
Profit after tax (before Minority Interest)	3,817	9,647
Profit after tax (after Minority Interest)	3,817	9,647

The revenue for the current quarter ended 31 March 2016 at RM16.4 million was lower than the preceding quarter 31 December 2015 of RM27.3 million. Similarly, profit after tax for the current quarter was lower compared to the preceding quarter.

B3. PROSPECTS FOR 2016

The Malaysian economy is expected to remain on a sustained growth path of 4% - 4.5%, despite the challenging economic environment globally and domestically. Domestic demand will continue to be the principal driver of growth, sustained primarily by private sector spending.

The property market sentiment is expected to remain challenging following the weakening of the ringgit and the general economic uncertainties coupled with concerns on oversupply of properties, a tight lending environment,. However, with the unbilled sales from its on-going projects, the Group's performance is expected to remain positive.

External forces such as increase in material costs, energy costs including manpower resources and GST impact in the construction sector are expected to continue to exert pressure on the Group's operating margin. Barring any unforeseen circumstances, the Board of Directors is of the view that the Group will achieve favourable results for the financial year ending 31 December 2016.

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B4. PROFIT FORECAST AND ESTIMATES ANNOUNCED OR DISCLOSED

Not applicable as there were no profit forecast or estimates that has been announced or disclosed for the financial year 2016.

B5. TAX EXPENSE

	Current Year Qtr 01.01.2016 – 31.03.2016 RM'000	Preceding Year Qtr 01.01.2015 – 31.03.2015 RM'000	Current Year 01.01.2016 – 31.03.2016 RM'000	Preceding Year 01.01.2015 – 31.03.2015 RM'000
In respect of current period				
- income tax	1,527	1,087	1,527	1,087
- deferred tax	(79)	(12)	(79)	(12)
	<u>1,448</u>	<u>1,075</u>	<u>1,448</u>	<u>1,075</u>

The Group's effective tax rate for the 3 months ended 31 March 2016 was marginally above the statutory rate of 24% mainly due to the under provision of deferred tax liabilities for the preceding year taken up in the current quarter.

B6. THE STATUS OF CORPORATE PROPOSALS

There were no corporate proposals announced but not completed as of the date of this report.

B7. BORROWINGS AND DEBT SECURITIES

The Group has unsecured short term borrowings of RM2.0 million at the end of the current quarter to 31 March 2016.

B8. MATERIAL LITIGATION

On 4 June 2015, the Company announced that the Company and three of its wholly-owned subsidiaries, namely Ken Property Sdn Bhd, Ken Capital Sdn Bhd and Ken JBCC Sdn Bhd ("Defendants") had on 3 June 2015 been served with an application for interlocutory injunction ("Application") filed by Sazean Holdings Sdn Bhd to prevent the Defendants from taking any form of action including development of a land in Johor owned by Ken JBCC Sdn Bhd (formerly known as Gadini Sdn Bhd) pending the full disposal of the High Court Suit No. 22NCVC-64-01/2015.

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The Court has allowed the Application whereby only part of the prayers was granted. The outcome of the Injunction is that the Defendants are only prevented from imposing any encumbrances on the land, selling and/or auctioning the land pending full disposal of the High Court Suit No. 22NCVC-64-01/2015. Nevertheless, it does not affect the development progress of the land.

The Court has also allowed the Defendants application for securities for costs whereby the Plaintiff is required to deposit into their solicitor's client account the sum of RM50,000 in the form of fixed deposit.

The Defendant has appealed to the Court of Appeal against the High Court's decision for allowing part of the Application and the Court of Appeal has dismissed the Application. The Plaintiff is now appealing to the Federal Court for leave to appeal against the Court of Appeal's decision.

The Plaintiff has filed an application to amend their Statement of Claim ("Amendment Application") and the Court has allowed the Plaintiff's Amendment Application. The Defendant has filed their amended Defence and Counterclaim and the Court has fixed the trial dates in August 2016.

The Company will make the necessary announcement on further development of this matter in due course.

B9. DIVIDEND

The Board does not recommend any interim dividend for current quarter under review (2015 - Nil).

B10. EARNINGS PER SHARE

	Quarter Ended 31.03.2016	3 months Ended 31.03.2016
	RM'000	RM'000
A Basic Earnings		
Net profit attributable to shareholders	<u>3,817</u>	<u>3,817</u>
Weighted average number of ordinary shares ('000)	179,343	179,343
Basic earnings per share (sen)	2.13	2.13
B Diluted earnings	N/A	N/A

There is no impending effect on the diluted earnings per share.

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B11. REALISED AND UNREALISED PROFITS

In compliance with Bursa Malaysia directive to all listed issuers pursuant to Paragraphs 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements, requiring the disclosure and breakdown of the unappropriated profits and accumulated losses as at the reporting period, into realised and unrealised profits or losses and also to Bursa Malaysia issued guidance on the disclosure and the format required, the break down for retained profits of the Group as at the reporting date, into realised and unrealised profits pursuant to the directive, is as follows:

	Group 31.03.2016 RM'000	Group 31.12.2015 RM'000
Total retained earnings of KHB and its subsidiaries		
- Realised	206,114	198,989
- Unrealised	(2,479)	(2,558)
	<u>203,635</u>	<u>196,431</u>
Less:		
Consolidated adjustments	(66,868)	(63,481)
Total Group retained profits and per consolidated accounts	<u>136,767</u>	<u>132,950</u>

B12. PROFIT FOR THE PERIOD

	Current Year Qtr 01.01.2016 - 31.03.2016 RM'000	Preceding Year Qtr 01.01.2015 - 31.03.2015 RM'000	Current Year 01.01.2016 - 31.03.2016 RM'000	Preceding Year 01.01.2015 - 31.03.2015 RM'000
Profit for the period is arrived at after crediting/(charging):				
Gain on disposal of property, plant and equipment	-	10	-	10
Interest income	114	105	114	105
Other income	904	934	904	934
Depreciation	(203)	(235)	(203)	(235)
Interest expense	(26)	(28)	(26)	(28)

Save as disclosed above, the other items as required under Appendix 9B, Part A (16) of the Listing Requirements are not applicable.

By Order of the Board,

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Andrea Huong Jia Mei
Company Secretary
Date: 24 May 2016