QUALITY CONCRETE HOLDINGS BERHAD

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of Preparation

The condensed consolidated interim financial statements (Condensed Report) are unaudited and have been prepared in accordance with MFRS 134 *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("MASB"), IAS 34 *Interim Financial Reporting* issued by the International Accounting Standards Board 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 Group's audited annual financial statements for the financial year ended 31 January 2018. The explanatory notes attached to the condensed consolidated 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 31 January 2018.

2. Changes in significant Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2018, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2018.

- Annual Improvements to MFRS Standards 2014 - 2016 Cycle:

(i) Amendments to MFRS 1: First-time Adoption of Malaysian Financial Reporting Standards

(ii) Amendments to MFRS 128: Investments in Associates and Joint Ventures

- Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions
- Amendments to MFRS 4: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts
- Amendments to MFRS 140: Transfers of Investment Property
- MFRS 9: Financial Instruments
- MFRS 15: Revenue from Contracts with Customers
- IC Interpretation 22: Foreign Currency Transactions and Advance Consideration

(a) Annual Improvements to MFRS Standards 2014 - 2016 Cycle

The Annual Improvements to MFRS Standards 2014-2016 Cycle include a number of amendments to various MFRSs, which are summarised below. These amendments do not have a significant impact on the Group's and the Company's financial statements.

2. Changes in significant Accounting Policies (contd.)

(a) Annual Improvements to MFRS Standards 2014 - 2016 Cycle (contd.)

Amendments to MFRS 128: Investments in Associates and Joint Ventures

The amendments clarify that:

- an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition, on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

- if an entity, that is not itself an investment entity, has an interest in associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at a later date on which:

(i) the investment entity associate or joint venture is initially recognised;
(ii) the associate or joint venture becomes an investment entity; and
(iii) the investment entity associate or joint venture first becomes a parent.

(b) Amendments to MFRS 140: Transfers of Investment Property

The amendments clarify that when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of change in use.

Entities can apply these amendments either retrospectively (if this is possible without the use of hindsight) or prospectively. Earlier application of the amendments is permitted and must be disclosed. Since the Group's current practice is in line with the clarifications issued, there is no effect on its consolidated financial statements.

(c) MFRS 9: Financial Instruments

On the adoption of MFRS 9, the Group has assessed all the three aspects of the accounting for the financial assets and liabilities for classification and measurement, impairment and hedge accounting. In respect of impairment of financial assets, MFRS 9 replaces the "incurred loss" model in MFRS 139 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments. During the current financial quarter ended, there is no requirement for any reclassification for loans and receivables nor any significant impact on the statement of financial position on fair value measurement on the financial assets and quoted equity shares held as available-for-sale (AFS) and there is no expectation of any impairment on trade receivables.

2. Changes in significant Accounting Policies (contd.)

(d) MFRS 15: Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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 except for the following areas:

(i) Property development

The Group is in the business developing residential and commercial properties. The Group used to recognise revenue from the sale of development properties under construction using the completion method. Under MFRS 15, performance obligations for the sale of development properties are satisfied over time where the Group is restricted contractually from directing the properties for alternative use as they are being developed and has an enforceable right to payment for performance completed to date. Accordingly, the revenue used to recognise using the completed contract method is adjusted upon adoption of MFRS 15 to recognised the revenue over time.

(ii) **Costs incurred in obtaining a contract**

Prior to adoption of MFRS 15, sales commissions incurred were taken to profit or loss because they do not qualify for recognition as an asset under any of the other accounting standards. Upon the adoption of MFRS 15, the Group capitalises such commissions as incremental costs to obtain a contract if these costs are recoverable. These costs are amortised to profit or loss as the Group recognises the related revenue.

(iii) **Presentation and disclosure requirements**

The presentation and disclosure requirements in MFRS 15 are more detailed than the current standard. Many of the disclosure requirements in MFRS 15 are new and the Group has assessed that the impact of some of these disclosures will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgments made, i.e. when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to each performance obligation and the assumptions made to estimate the stand-alone selling prices of each performance obligation. MFRS 15 also requires revenue recognised to be disaggregated into categories that depict the nature, amount, timing and uncertainty of revenue and cash flows.

2. Changes in significant Accounting Policies (contd.)

(d) MFRS 15: Revenue from Contracts with Customers (contd.)

In summary, the impact of MFRS 15 adoption is as follows:

(i) Reconciliation of equity as at 1 February 2017

	As at 1/2/2017 RM'000	Impact of MFRS 15 RM'000	As at 1/2/2017 (Restated) RM'000
Assets			
Non-Current Assets			
Deferred Tax Assets	128	(128)	-
Others	111,384		111,384
	111,512		111,384
Current Assets			
Property Development cost	21,743	(4,585)	17,158
Inventories	3,622	(231)	3,391
Trade Debtors	13,560	2,939	16,499
Others	95,476		95,476
	134,401		132,524
Total assets	245,913		243,908
Equity and liabilities			
Share capital	82,956		82,956
Capital & Foreign exchange reserves	385		385
Retained earnings	45,495	(460)	45,035
	128,836		128,376
Non Controlling interest	96		96
	128,932		128,472
Non-current liabilities			
Deferred taxation	1,676		1,676
Others	9,009		9,009
	10,685		10,685
Current Liabilities			
Trade & other payables	29,551	(2,465)	27,086
Others	76,745		76,745
	106,296		103,831
Total liabilities	116,981		114,516
Total equity and liabilities	245,913		242,988

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2. Changes in significant Accounting Policies (contd.)

(d) MFRS 15: Revenue from Contracts with Customers (contd.)

(ii) Reconciliation of equity as at 31 January 2018

	As at 31/01/2018	Impact of MFRS 15	As at 31/01/2018 (Restated)
	RM'000	RM'000	RM'000
Assets			
Non-Current Assets			
Deferred Tax Assets	128	(712)	-584
Others	111,560		111,560
	111,688		110,976
Current Assets			
Property Development cost	23,655	(9,792)	13,863
Inventories	33,478	(231)	33,247
Trade Debtors	43,342	854	44,196
Others	36,213		36,213
	136,688		127,519
Total assets	248,376		238,495
Equity and liabilities			
Share capital	82,956		82,956
Capital & Foreign exchange reserves	447		447
Retained earnings	43,305	1,661	44,966
	126,708		128,369
Non Controlling interest	1,425		1,425
	128,133		129,794
Non-current liabilities			
Deferred taxation	1,676		1,676
Others	8,257		8,257
	9,933		9,933
Current Liabilities			
Trade & other payables	37,834	(11,542)	26,292
Others	72,476		72,476
	110,310		98,768
Total liabilities	120,243		108,701
Total equity and liabilities	248,376		238,495

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2. Changes in significant Accounting Policies (contd.)

(d) MFRS 15: Revenue from Contracts with Customers (contd.)

(iii) Reconciliation of total comprehensive income for the period ended 31 January 2018

	As at 31/01/2018	Impact of MFRS 15	As at 31/01/2018 (Restated)
	RM'000	RM'000	RM'000
Revenue	77,880	6,992	84,872
Cost of Sales	(70,694)	(5,206)	(75,900)
Gross Profit	7,186	1,786	8,972
Other income	1,761		1,761
Other operating expenses	(14,913)		(14,913)
Loss from operations	(5,966)	1,785	(4,180)
Finance costs	(3,664)		(3,664)
Share of loss of associates	-		-
Loss before taxation	(9,630)	1,785	(7,844)
Taxation	(81)	(584)	(665)
Loss for the period	(9,711)	1,201	(8,509)
Other comprehensive income, net of tax	55		55
Total Comprehensive income for the period	(9,656)	1,201	(8,454)
Loss for the period attributable to:			
Owners of the parent	(9,244)	1,201	(8,043)
Non controlling interest	(467)		(467)
	(9,711)	1,201	(8,509)
Total Comprehensive income attributable to:			
Owners of the parent	(9,189)	1,201	(7,988)
Non controlling interest	(467)		(467)
Total Comprehensive income for the period	(9,656)	1,201	(8,454)
EPS (sen) - Basic	(15.95)		(13.88)
- Diluted			
	(15.95)		(13.88)

3. Auditors' report on preceding annual financial statements

The Group's audited financial statements for the financial year ended 31 January 2018 were reported on by its external auditors, Ernst & Young without any qualifications.

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4. Seasonal or cyclical factors

The performance of the Group was not affected by any significant seasonal or cyclical factors during the period under review.

5. Unusual items

There were no items affecting assets, liabilities, equity, net income, or cash flows that are unusual due to their nature, size and incidence.

6. Changes in estimates

There were no changes in the estimates of amounts reported in prior quarters which have a material impact on the interim financial statements.

7. Debt and equity securities

During the quarter under review and current financial year-to-date, there were no issuances and repayment of debt and equity securities.

8. Dividends paid

No dividend was paid in the current quarter and financial year to date.

9. Segmental reporting

The segment information for business segments predominantly conducted in Malaysia for the current financial year to date were as follows:

12 months ended 31 January 2019	Manufacturing RM '000	Trading RM '000	Property development & Construction RM '000	Quarry operation RM '000	Investment & mgt services RM '000	Eliminations /Adjustment RM '000	Total RM '000
REVENUE							
External sales	98,406	4,179	19,584	2,528	-	-	124,697
Inter-segment sales	510	19,872	-	1,908	-	(22,290)	-
Total revenue	98,916	24,051	19,584	4,436	-	(22,290)	124,697
RESULTS							
Operating profit	(5,654)	310	888	827	(2,056)	(36)	(5,720)
Financing cost	(2,040)	(294)	(1,964)	-	(487)	-	(4,788)
Income taxes	44	(77)	(70)	(427)	(273)	(56)	(859)
Net profit/(loss)	(7,650)	(61)	(1,146)	400	(2,816)	(92)	(11,366)

12 months ended 31 January 2018 (Restated)	Manufacturing RM '000	Trading RM '000	Property development & construction RM '000	Quarry operation RM '000	Investment & mgt services RM '000	Eliminations /Adjustment RM '000	Total RM '000
REVENUE							
External sales	98,824	4,527	7,276	1,325	-	-	111,952
Inter-segment sales	-	21,966	-	2,219	-	(24,185)	-
Total revenue	98,824	26,493	7,276	3,544	-	(24,185)	111,952
RESULTS							
Operating profit	(7,184)	440	770	324	(1,975)	(864)	(8,489)
Financing cost	(1,858)	(270)	(2,450)	(1)	(441)	-	(5,019)
Income taxes	(284)	(74)	726	(35)	-	-	333
Net profit/(loss)	(9,325)	96	(954)	288	(2,416)	(864)	(13,175)

10. Subsequent events

No material events have arisen during the interval between the end of the current quarter and the date of this announcement which have not been reflected in the current quarterly report.

11. Changes in the composition of the Group

There were no changes in composition of the Group for the current quarter and financial year to date.

12. Capital commitments

There were no material capital commitments for the current quarter under review.

13. Related Party Transactions

	3 months ended		12 months ended	
	31.01.19 RM'000	31.01.18 RM'000	31.01.19 RM'000	31.01.18 RM'000
Income				
Sale of construction materials to:				
-Lee Ling Construction & Development Sdn. Bhd.	50	2,729	3,880	6,883
-Limba Jaya Timber Sdn. Bhd.	-	-	-	4
-Lee Ling Timber Sdn. Bhd.	-	-	-	61
-Metro 360 Hotel Sdn. Bhd.	-	19	-	21
-Yong Teck Construction	-	-	-	-
Expenditure				
Purchase of sawn timber				
-Lee Ling Timber Sdn. Bhd	3,258	758	11,480	11,497
Sea freight charges				
-Lee Ling Timber Sdn. Bhd.	-	-	187	-
Construction works				
-Lee Ling Construction & Development Sdn. Bhd.	-	1,343	538	5,288
Rental of office				
-BMK Development Sdn. Bhd.	39	39	156	156

14. Review of performance of the Group

The Group's revenue for the year ended 31 January 2019 stood at RM124.6 million representing 11.4% or RM12.7 million increase as compared to the last financial year. The increase was mainly driven by the improved contribution from the Construction & Property Development Segment which recorded RM12.3 million increase in revenue. The property development division registered better sale of property for the current period while construction division also seen its construction project progressing well. The Manufacturing segment has registered revenue of RM98.9 million which is slightly less than 99.0 million registered in the las financial year. The pipes manufacturing division which seen its revenue increase by RM5.9 million in line with the Sarawak government's effort to improve water supply to rural areas. However, the improved revenue from pipes manufacturing division was partly offsetted by the drop in revenue from the ready mixed division which saw its revenue dropped by RM5.5 million due to the lackluster demand for Concrete products.

As for the current quarter under review, the Group's revenue stands at RM28.2 million which is an increase of RM1.3 million as compared to the corresponding quarter of last financial year. The Manufacturing segment has seen its revenue dropped by RM1.3 million as a result of fewer demand for pipes products in the current quarter as compared to the same quarter of last year. The Construction & Property Development segment has recorded a higher revenue of RM3.5 million as compared to the corresponding quarter where no revenue was recorded as the road construction project has started to contributed positively to the Group.

15. Comment on material change in profit/loss before taxation ("PBT/LBT")

Group has recorded LBT of RM10.4 million for the year ended 31 January 2019 as compared to LBT of RM13.5 million recorded in the last financial year. The manufacturing segment has recorded a lower LBT of RM7.7 million as compared to LBT of RM9.0 million recorded in the last financial year mainly due to lower expenses as a result of the cost cutting measures implemented throughout the current financial year for the Ready Mixed Concrete Division. The construction and property development division has registered a lower LBT of RM1.1 million on the back of higher revenue registered during the period under review. Other than that, the changes in accounting standards (MFRS 15 Revenue) has also negatively impacted the results of the current financial year as revenue on development projects which are previously recognized on completion of project basis is now recognized based on stage of completion. This has resulted about RM2.2 million of profit which should be recognized in the current year being restated to prior year period. The impact of the standard is further explained in note 2. The Group has also recorded impairment of receivables amounting to RM1.6 million as well as impairment of inventory amounting to RM0.5 million in the fourth quarter of the current year.

For the current quarter under review, the Group has recorded a LBT of RM6.2 million as compared to LBT of RM5.3 million in the corresponding quarter of last year as the Manufacturing Segment has recorded a higher loss due to impairments of receivables and also inventories as mentioned above.

16. Current year prospects

The management is mindful of the challenges ahead and is taking measures to improve the performance of the Group and ensure better efficiency. Externally we will continue to seek new opportunities to secure more revenue, while internally cost cutting and streamlining the operation to achieve better outputs and efficiency. The market will continue to pose a big challenge to the construction industry, and management will continue to be prudent in our approach to ensure the Group is in a strong footing to meet this challenges.

17. (a) Variance of actual profit from forecast profit

Not applicable as no profit forecast was published.

(b) Shortfall in the profit guarantee

There was no profit guarantee for the current year under review.

18. Taxation

	12 months ended 31/1/2019 RM'000	12 months ended 31/1/2018 RM'000
- Current period taxation	(405)	-
-(Over)/Under provision of taxation	(453)	(674)
- Deferred taxation	48	(243)
	(810)	(917)

19. Status of corporate proposals announced but not completed

There were no corporate proposals which have been announced but not yet been completed as at the date of this announcement.

20. Group borrowings and debt securities

	As At 31/01/19 Total RM'000
Secured:	
Term loans	6,234
Bank overdrafts	14,051
Revolving credits	20,500
Bankers' acceptance	26,969
Hire purchase	3,453
	71,207
Repayable within twelve months	66,652
Repayable after twelve months	4,555
	71,207

The above borrowings are denominated in Ringgit Malaysia

21. Earnings per share

	Individual quarter ended	
	31/01/2019	31/01/2018
	RM'000	RM'000
		(Restated)
Net loss attributable to owners of the parent	(6,507)	5,216

Weighted average number of ordinary shares	Individual quarter ended	
	31/01/2019	31/01/2018
	'000	'000
Issued and fully paid share capital at beginning of the financial period	57,962	57,962
Effect of shares issued during the 9 months period ended 31 October 2017 / 2016	-	-
Weighted average number of ordinary shares	57,962	57,962
Effect of ESOS share options	-	-
Weighted average number of ordinary shares (diluted)	57,962	57,962
Basic (sen)	(11.23)	9.00
Fully diluted (sen)	(11.23)	9.00

	Cumulative year to date	
	31/01/2019	31/01/2018
	RM'000	RM'000
		(Restated)
Net loss attributable to owners of the parent	(10,564)	(12,571)

Weighted average number of ordinary shares	Cumulative year to date	
	31/01/2019	31/01/2018
	'000	'000
Issued and fully paid share capital at beginning of the financial year	57,962	57,962
Effect of shares issued during the 9 months period ended 31 October 2017 / 2016	-	-
Weighted average number of ordinary shares	57,962	57,962
Effect of ESOS share options	-	-
Weighted average number of ordinary shares (diluted)	57,962	57,962
Basic (sen)	(18.23)	(21.69)
Fully diluted (sen)	(18.23)	(21.69)

22. Changes in material litigation

As at the date of this announcement, there were no changes in all the existing material litigations of the Group which were disclosed both in the Company's Circular to Shareholders dated 31 May 2018 and previously announced quarterly reports.

23. Comprehensive Income Disclosures

Profit for the year is arrived at after charging/(crediting) the following:

	Individual Quarter		Cumulative Quarter	
	31/01/2019	31/01/2018	31/01/2019	31/01/2018
	RM'000	RM'000	RM'000	RM'000
Amortisation of prepaid land lease	108	80	348	320
Bad debts written back	(129)	(283)	(409)	(1,143)
Depreciation of property, plant & equipment	1,275	2,193	5,115	6,530
(Gain)/Loss on disposal of other investment	(174)	-	(174)	-
Interest expenses	1,154	1,356	4,683	5,020
Interest income	(54)	(206)	(314)	(576)
Impairment loss on receivables	1,661	-	1,661	900
Inventory written off	505	-	505	377
Net fair value changes in investment securities	-	315	-	273
Property, plant & equipment written off	(4)	19	71	64

24. 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 28 March 2019.