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 2019. 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 2019.

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 2019, the Group and the Company adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2019.

- Annual Improvements to MFRS Standards 2015 - 2017 Cycle:

(i) Amendments to MFRS 3: Business Combinations
(ii) Amendments to MFRS 11: Joint Arrangements
(iii) Amendments to MFRS 112: Income Taxes
(iv) Amendments to MFRS 112: Borrowing Costs

- Amendments to MFRS 9: Prepayemnt Features with Negative Compensation
- Amendments to MFRS 119: Employee Benefits – Plan Amendment, Curtailment or Settlement
- Amendments to MFRS 128: Lont-term Interests in Associates and Joint Ventures
- MFRS 16: Leases
- IC Interpretation 23: Uncertainty over Income Tax Treatments

(a) Annual Improvements to MFRS Standards 2015 - 2017 Cycle

The Annual Improvements to MFRS Standards 2015 - 2017 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 2015 - 2017 Cycle (contd.)

Amendments to MFRS 3: Business Combinations

The amendments clarify that an entity applies MFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). In applying MFRS 9, an entity does not account for any losses of the associate, or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying MFRS 128 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions. As the amendments eliminate ambiguity in the wording of the standard, the directors of the Company do not expect the amendments to have any impact on the Group's and the Company's financial statements..

(b) Amendments to MFRS 11: Joint Arrangements

The A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in MFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies these amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019.

(c) MFRS 112: Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies these amendments for annual reporting periods beginning on or after 1 January 2019. When an entity first applies these amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

(d) MFRS 123: Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies these amendments to borrowing costs incurred on or after the beginning of the annual reporting periods beginning on or after 1 January 2019.

2. Changes in significant Accounting Policies (contd.)

(e) MFRS 128: Long-term Interests in Associates and Joint Venture

The amendments clarify that an entity applies MFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). In applying MFRS 9, an entity does not account for any losses of the associate, or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying MFRS 128 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions. As the amendments eliminate ambiguity in the wording of the standard, the directors of the Company do not expect the amendments to have any impact on the Group's and the Company's financial statements.

(f) MFRS 16: Leases

MFRS 16 replaced MFRS 117 Leases, IC Interpretation 4 Determining Arrangements contains a Lease, IC Interpretation 115 Operating Lease - Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has applied MFRS 16 using modified retrospective approach and comparative information for 2018 has not been restated.

The Group assesses each contract whether an arrangement was or contained a lease under IC Interpretation 4 Determining Arrangements contains a Lease. Under MFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to MFRS 16, the Group elected to apply the new definition of a lease to all the contracts.

As a Lessor

The Group leases some its properties and were classified as operating lease. The accounting policies for the Group as a lessor remained the same as in MFRS 117. Hence, no requirement for any adjustments on the transition to MFRS 16 to be made.

As a Lessee

The Group leases many assets, comprising land, properties, vessel, vehicle and equipment. As a lessee, previously the Group classified leases as operating leases or finance lease based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under MFRS 16, the Group recognises right-of-use assets and lease liabilities for most of its operating leases – these leases are on-balance sheet at initial application. At transition, the right-ofuse asset is measured at an amount equal to lease liability whilst the lease liability is measured at the present value of the remaining lease payments using the Group's incremental borrowing rate.

When applying the modified retrospective approach, the Group has applied the following practical expedients on a lease-by-lease basis to the previous operating lease: i. Apply a single discount rate to a portfolio of leases with reasonable similar characteristics;

2. Changes in significant Accounting Policies (contd.)

(f) MFRS 16: Leases (contd.)

ii. Account for leases which the lease term ends within 12 months from the date of initial application as short-term lease; iii. Exclude initial direct costs from the measurement of the right-to-use asset at the date of initial application; and iv. Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease. The Group has applied commercial judgement to determine the lease term for those leases with renewal options and this in turn will impact on the amount of right-to use assets and lease liabilities recognised. The Group has elected not to recognise right-of use assets and lease liabilities for low value assets and short-term leases. The lease payments for these leases are expense on a straight-line basis over the lease term.

(g) IC Interpretation 23: Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of MFRS 112 and does not apply to taxes or levies outside the scope of MFRS 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately; - the assumptions an entity makes about the estimation of tax treatments by taxation authorities; - how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and - how an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Group and the Company will apply the interpretation from its effective date.

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. Auditors' report on preceding annual financial statements

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

9. 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.

10. 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.

11. Dividends paid

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

12. Segmental reporting

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

9 months ended 31 October 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	79,247	442	20,619	568	-	-	100,875
Inter-segment sales	221	16,143	-	1,268	-	(17,633)	-
Total revenue	79,468	16,585	20,619	1,836	-	(17,633)	100,875
RESULTS							
Operating profit	2,573	389	1,609	243	(1,377)	-	3,436
Share of associate results						283	283
Financing cost	(1,617)	(214)	(1,445)	-	(456)	-	(3,731)
Income taxes	(628)	(43)	(252)	(66)	-	-	(988)
Net profit/(loss)	327	132	(88)	177	(1,833)	283	(1,001)

9 months ended 31 October 2018	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	74,770	3,213	16,130	2,365	-	-	96,479
Inter-segment sales	427	14,432	-	1,518	-	(16,377)	-
Total revenue	75,197	17,645	16,130	3,883	-	(16,377)	96,479
RESULTS							
Operating profit	(2,102)	422	1,617	837	(1,452)	-	(679)
Financing cost	(1,674)	(243)	(1,259)	-	(352)	-	(3,529)
Income taxes	-	(56)	-	(371)	-	-	(426)
Net profit/(loss)	(3,775)	123	358	466	(1,804)	-	(4,634)

13. 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.

14. 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.

15. Capital commitments

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

16. Related Party Transactions

	3 months ended		9 months ended	
	31.10.19	31.10.18	31.10.19	31.10.18
	RM'000	RM'000	RM'000	RM'000
Income				
Sale of construction materials to:				
-Lee Ling Construction & Development Sdn. Bhd.	6	866	33	3,830
-Limba Jaya Timber Sdn. Bhd.	-	-	-	-
-Lee Ling Timber Sdn. Bhd.	-	-	146	-
-Metro 360 Hotel Sdn. Bhd.	-	-	-	-
-Yong Teck Construction	-	-	-	-
Expenditure				
Purchase of sawn timber				
-Lee Ling Timber Sdn. Bhd	1,063	2,202	4,863	8,222
Sea freight charges				
-Lee Ling Timber Sdn. Bhd.	-	55	-	187
Construction works				
-Lee Ling Construction & Development Sdn. Bhd.	-	-	-	538
Rental of office				
-BMK Development Sdn. Bhd.	39	39	117	117

17. Review of performance of the Group

The Group's revenue for the 9 months ended 31 October 2019 stood at RM100.9 million representing 4.6% or RM4.4 million higher as compared to the corresponding period of last financial year. The manufacturing segment which is the largest segment has recorded revenue of RM79.5 million in the current 9 months which is RM4.3 million higher than RM75.2 million recorded in the same period of the last financial year. The increase in revenue was driven by the increase in demand for ready mixed concrete and also pipes products. The construction & property development segment recorded revenue of RM20.6 million as compared to RM16.1 million in the same period of last year buoyed by progress of construction project in hand. Meanwhile, quarry segment has shown a decrease of RM2.1 million in revenue.

As for the current quarter under review, the Group's revenue stands at RM37.3 million which RM8.1 million higher as compared to the corresponding quarter of last financial year. The Manufacturing segment has seen its revenue higher by RM5.8 million as a result of higher demand from Ready Mixed Concrete and also pipes product. The Construction & Property Development segment has also recorded a higher revenue of RM5.6 million as compared RM2.4 million recorded in the corresponding quarter of the last financial. The Quarry Segment also recorded a lower revenue of RM0.6 million as compared to RM1.2 million in the corresponding quarter of last year.

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

Group has recorded a breakeven on the before tax level for the 9 months period ended 31 October 2019 as compared to LBT of RM4.2 million recorded in the corresponding period of last financial year. The manufacturing segment has recorded a PBT of RM1.0 million as compared to LBT of RM3.8 million recorded in the corresponding period of last financial in tandem with the increase in sales of the Ready Mixed Concrete and Pipes Division. Apart from that, lower cost of imported materials also contributed to the higher profit before tax in the current period. Meanwhile, the Construction and Property Development Segment recorded a lower PBT of RM0.2 million as compared to RM0.4 million recorded in the corresponding period in the absence of contribution from Property Development Division.

Profit before tax for the current quarter ended 31 October 2019 is at RM1.5 million as compared to LBT of RM2.2 million recorded in the corresponding quarter of last financial year. The better result of the current quarter was mainly attributable to the increase in revenue for manufacturing of HDPE pipes of the Manufacturing Segment coupled with the lower cost of imported materials.

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

Group 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 for 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 challenge.

20. (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.

21. Taxation

	9 months ended 31/10/2019 RM'000	9 months ended 31/10/2018 RM'000
- Current period taxation	988	426
-(Over)/Under provision of taxation	-	-
- Deferred taxation	-	-
	988	426

22. 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.

23. Group borrowings and debt securities

	As At 31/10/19 Total RM'000
Secured:	
Term loans	5,747
Bank overdrafts	12,200
Revolving credits	17,000
Bankers' acceptance	36,873
Hire purchase	3,420
	75,240
Repayable within twelve months	69,272
Repayable after twelve months	5,968
	75,240

The above borrowings are denominated in Ringgit Malaysia

24. Earnings per share

Weighted average number of ordinary shares	**Individual quarter ended**	
	31/10/2019	**31/10/2018**
	'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 2019 / 2018	-	-
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)	1.50	(4.12)
Fully diluted (sen)	1.50	(4.12)

	Cumulative year to date	
	31/10/2019	**31/10/2018**
	RM'000	**RM'000**
Net profit/(loss) attributable to owners of the parent	(931)	(4,057)

Weighted average number of ordinary shares	**Cumulative year to date**	
	31/10/2019	**31/10/2018**
	'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 2019 / 2018	-	-
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)	(1.61)	(7.00)
Fully diluted (sen)	(1.61)	(7.00)

25. Material litigation

There were no pending material litigations for the current financial quarter under review.

26. Comprehensive Income Disclosures

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

	Individual Quarter		Cumulative Quarter	
	31/10/2019	**31/10/2018**	**31/10/2019**	**31/10/2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Amortisation of prepaid land lease	80	80	240	240
Bad debts written back	(19)	(23)	(52)	(198)
Depreciation of property, plant & equipment	1,276	1,264	3,883	3,840
(Gain)/Loss on disposal of other investment	-	-	-	-
Interest expenses	890	1,984	4,040	4,560
Interest income	(81)	(65)	(355)	(260)
Impairment loss on receivables	-	-	-	-
Inventory written off	-	-	-	-
Net fair value changes in investment securities	-	-	-	-
Property, plant & equipment written off	6	(18)	8	71

27. 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 19 December 2019.