

AWC BERHAD
(Company No. 550098-A)
(Incorporated in Malaysia)

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 30 JUNE 2015

PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

1. BASIS OF PREPARATION

The interim financial report is unaudited and has been prepared in accordance with the requirements of Malaysian Financial Reporting Standards (“MFRS”), MFRS 134: Interim Financial Reporting and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements for the financial year ended 30 June 2014.

These explanatory notes attached to the 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 financial year ended 30 June 2014.

MFRSs, Amendments to MFRSs and IC Interpretations issued but not yet effective

The following MFRSs, Amendments to MFRSs and IC Interpretations have been issued by the Malaysian Accounting Standards Board (“MASB”) but are not yet effective, and have yet to be adopted by the Group:

<u>MFRSs, Amendments to MFRSs and IC Interpretations</u>	<u>Effective Date</u>
MFRS 14	Regulatory Deferral Accounts
MFRS 15	Revenue From Contracts with Customers
MFRS 9	Financial Instruments
Amendments to MFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to MFRS 116 and MFRS 138	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to MFRS 9 and MFRS 7	Mandatory Effective Date of MFRS 9 and Transition Disclosures

The adoption of the accounting standards, amendments and interpretations set out above is expected to have no material impact on the financial statements of the Group upon their initial application.

2. AUDITORS’ REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors’ report on the financial statements for the financial year ended 30 June 2014 was not subject to any audit qualification.

3. SEASONAL OR CYCLICAL FACTORS

The Group’s business was not affected by any significant seasonal or cyclical factors during the current quarter under review.

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4. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE

There was no unusual item affecting assets, liabilities, equity, net income or cash flows during the current quarter under review.

5. CHANGE IN ESTIMATES

There was no change in estimates of amounts reported in the prior financial year that have a material effect in the current quarter.

6. DEBT AND EQUITY SECURITIES

There was no issuance, cancellation, repurchases, resale and repayment of debt and equity securities during the current quarter under review

The number of treasury shares held as at 30 June 2015 is as follows:-

	No. of shares	Amount RM
Balance of treasury shares as at 1 July 2014	3,326,800	855,221
Add: Purchase of treasury shares during the period under review	-	-
Balance of treasury shares as at 30 June 2015	3,326,800	855,221

7. DIVIDENDS PAID

There were no dividends paid in the current quarter.

8. SEGMENTAL INFORMATION

The revenue, segment profit/loss, and segment assets for the various segments under the Group for the year ended 30 June 2015 is as follows:

	Investment holding	Facilities Division	Engineering Division	Environment Division	Adjustments and eliminations	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	-	87,578	20,970	33,910	(14,816)	127,642
Segment (loss)/profit	(2,766)	5,726	1,765	7,922	-	12,647
Segment assets	49,651	56,910	30,698	62,890	(43,654)	156,495

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9. CARRYING AMOUNT OF REVALUED ASSETS

Not Applicable.

10. SIGNIFICANT AND SUBSEQUENT EVENT

There were no material events subsequent to 30 June 2015 to the date of this report that have not been reflected in the financial statements for the current financial period.

11. CHANGES IN COMPOSITION OF THE GROUP

There was no change in the composition of the Group during the current quarter.

12. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no material contingent liabilities or contingent assets as at the date of this report.

13. COMMITMENTS

There were no material commitments which require disclosure in this report except for the following:

	As at 30 June 2015 RM'000	As at 30 June 2014 RM'000
Non-cancellable operating lease commitments		
Future minimum rentals payable:		
Not later than 1 year	669	669
Later than 1 year and not later than 2 years	338	388
Later than 2 years and not later than 5 years	119	738
	<u>1,126</u>	<u>1,795</u>

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**PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MAIN MARKET
LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

14. PERFORMANCE REVIEW BY SEGMENTS

Revenue	Current quarter ended 30 June 2015 RM'000	Current period to-date ended 30 June 2015 RM'000	Preceding year corresponding period ended 30 June 2014 RM'000	Variance for Period-to-date [Favorable / (adverse)] RM'000
Facilities	19,061	73,726	61,540	12,186
Environment	9,331	33,910	31,227	2,683
Engineering	5,295	20,006	26,739	(6,733)
Total consolidated	<u>33,687</u>	<u>127,642</u>	<u>119,506</u>	

Segment profit/(loss)	Current quarter ended 30 June 2015 RM'000	Current period to-date ended 30 June 2015 RM'000	Preceding year corresponding period ended 30 June 2014 RM'000	Variance for period-to-date [Favorable / (adverse)] RM'000
Facilities	1,811	5,726	7,599	(1,873)
Environment	(42)	7,922	6,992	930
Engineering	1,474	1,765	1,186	579
Investment Holding	(1,136)	(2,766)	(2,024)	(742)
Profit before tax	<u>2,107</u>	<u>12,647</u>	<u>13,753</u>	

14.1 Facilities Division

This Division registered a pre-tax profit of RM5.7 million for the current period to-date which was RM1.8 million lower as compared to the corresponding period last year principally due higher operating costs incurred. The higher operating costs incurred mainly related to startup costs applicable in certain new projects undertaken in the commercial sector. Further, the Division undertook scheduled maintenance work in the Concession sector where a rate revision is due under the upcoming renewal of the Concession.

14.2 Environment Division

The Environment Division recorded a pre-tax profit of RM7.9 million for the current period to-date as compared to a pre-tax profit of RM7.0 million in the corresponding period last year which was primarily due to debt recovery on certain projects completed in the past which had been fully provided for.

14.3 Engineering Division

Pre-tax earnings of RM1.8 million from the Engineering Division for the current period to-date were higher by approximately RM0.6 million against the corresponding period last year principally due to improved performance of the Singapore subsidiary for the current period to-date.

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**15. COMMENTARY ON MATERIAL VARIATION IN PROFIT BEFORE TAXATION
AGAINST PRECEDING QUARTER**

	Current quarter ended 30 June 2015 RM'000	Preceding quarter ended 31 March 2015 RM'000	Variance [Favorable / (adverse)] RM'000
Profit before taxation	2,107	1,410	697

The Group registered a profit before taxation of RM2.1 million for the current quarter as compared to profit before taxation of RM1.41 million in the immediate preceding quarter. This improvement was due to the higher revenue earned coupled with the lower operating expenses incurred in the current quarter.

16. COMMENTARY ON PROSPECTS

16.1 Facilities Division

The income of the Facilities Division is derived principally from the Concession sector which undertakes under a concession from the Federal Government, i.e. the integrated facility management of all Federal Government buildings in four states. This concession is currently on interim extension pending the execution of a new Concession Agreement whereby in principle the extension has already been approved by the Government. In addition to this, the Commercial sector handles various short term contracts outside of the Concession.

The revenue from the Concession sector is currently based on old rates (which have been effective since 2001) and revenue is expected to improve once the new Concession Agreement is executed. In addition the Commercial sector which handles mainly short term contracts foresees better growth, however the margins remain competitive due to market competition.

16.2 Environment Division

Revenue and profit of the Environment Division are closely pegged to project income from contracted onshore and offshore projects which are highly correlated to:-

- (a) The economic prospects and development of the offshore regions in which it operates principally in the Middle East and Singapore.
- (b) Project risks such as delay in commencement, progress and completion of projects which may result in lower revenue recognition leading to an adverse impact on the financial performance of this Division.

In addition, the Division is also exposed to foreign currency risks of its operating regions such as United Arab Emirates Dirham and Singapore Dollar.

Considering the present global economic climate, the Environment Division shall be selective in building its order books in developing and upcoming economies both abroad and closer to home.

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16.3 Engineering Division

Performance of this Division is expected to remain closely pegged to the cyclical construction sector in both Malaysia and Singapore which is highly correlated to the economic outlook and consumers' sentiment under intense market competition. In addition, this Division has secured certain substantial projects in the air conditioning segment which is expected to improve its financial performance.

As mentioned in item 19 below, AWC has announced the Proposed Acquisition of Qudotech Sdn Bhd ("Qudotech") and DD Techniche Sdn Bhd ("DDT"). Upon completion of these acquisitions, the performance of the Engineering Division will be enhanced by the performance of Qudotech and DDT including a profit guarantee given for the next two financial years.

17. PROFIT FORECAST OR PROFIT GUARANTEE

Not applicable.

18. INCOME TAX EXPENSE

	Current quarter ended 30 June 2015 RM'000	Period to date ended 30 June 2015 RM'000
Income tax expense for the period	-	(1,371)

The effective tax rate of certain subsidiaries is lower than the statutory tax rate mainly due to the effect of tax exempt profits from the joint controlled entity, foreign-source income generated from its operations in Abu Dhabi, United Arab Emirates and pioneer status tax incentive enjoyed by certain subsidiaries of the Group. Also certain subsidiaries had unabsorbed tax losses to offset against profits earned.

19. CORPORATE PROPOSALS

On 29th July 2015, the Company announced the following multiple proposals:

19.1 Proposed Acquisition

The Company on 29th July 2015 signed a Conditional Share Sale Agreement for the proposed acquisition of 750,000 ordinary shares of RM1.00 each in Qudotech and 500,000 ordinary shares of RM1.00 each in DDT, representing the entire equity interest of both Qudotech and DDT respectively, for a total consideration of RM26.50 million to be satisfied by a combination of cash and issuance and allotment of new ordinary shares of par value RM0.30 each in AWC ("**Proposed Acquisition**"). Under the terms of the Proposed Acquisition, the Vendors are to provide AWC with a profit guarantee of RM3.9 million each per annum for the two financial years ending 30 June 2016 and 30 June 2017; and

19.2 Proposed Employees Share Option Scheme ("ESOS")

The establishment of a Proposed ESOS of up to fifteen percent (15%) of the issued and paid-up share capital of AWC (excluding treasury shares) at any point in time.

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The multiple proposals are pending Shareholders' approval at an Extraordinary General Meeting to be convened. The draft circular to Shareholders' and the Additional Listing Application in respect of the new shares to be issued pursuant to the multiple proposals has been submitted to Bursa Malaysia Securities Berhad on 14 August 2015.

On 27 August 2015, the AWC Board resolved to terminate the ESOS 2011, on the recommendation of the ESOS Committee, since no ESOS options were granted and the ESOS 2011 is set to expire in March 2016. The ESOS 2011 is to be replaced by the new scheme as announced.

Further details regarding the multiple proposals can be found in our announcement dated 29 July 2015.

20. BORROWINGS

	As at 30 June 2015 RM'000	As at 30 June 2014 RM'000
Secured short-term borrowings:		
Term loan	-	809
Hire purchase payables	411	269
Total short-term borrowings	<u>411</u>	<u>1,078</u>
Secured long-term borrowings:		
Revolving credit	1,511	-
Term loan	-	1,154
Hire purchase payables	232	779
	<u>1,743</u>	<u>1,933</u>
Total borrowings	<u>2,154</u>	<u>3,011</u>

All of the above borrowings are denominated in Ringgit Malaysia except for RMNIL (2014: RM160,554) which are denominated in Singapore Dollars.

21. MATERIAL LITIGATION

There is no material litigation which may materially affect the Group for the current quarter under review.

22. PROPOSED DIVIDEND

There was no dividend proposed in the current quarter.

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23. EARNINGS PER SHARE

The basic earnings per ordinary share of the Group is calculated based on the Group's net profit for the period attributable to owners of the Company over the weighted average number of ordinary shares in issue during the period, excluding treasury shares held by the Company as follows:

	Current quarter ended 30 June 2015	Period to date ended 30 June 2015
Profit attributable to owners of the company (RM'000)	2,191	7,778
Weighted average number of ordinary shares in issue, excluding treasury shares ('000)	225,342	225,342
Basic earnings per share (sen)	0.97	3.45

There are no shares or other financial instruments in issue which have a dilutive effect on the earnings per share of the Group.

24. REALISED AND UNREALISED PROFITS/LOSSES

	As at 30 June 2015 RM'000
Total retained profits of the Company and its subsidiaries:	
- Realised	47,000
- Unrealised	1,944
	48,944
Total share of retained profit / (accumulated losses) from associated company:	
- Realised	-
- Unrealised	-
Total share of retained profit / (accumulated losses) from jointly controlled entity:	
- Realised	-
- Unrealised	-
	48,944
Less: Consolidation adjustments	(39,147)
Total group retained profits as per consolidated accounts	9,797

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25. ITEMS INCLUDED IN CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Profit from operations is for the current quarter and period to-date ended 30 June 2015 is stated after charging / (crediting) the following items:

	Current quarter ended 30 June 2015 RM'000	Period to date ended 30 June 2015 RM'000
Interest income	(213)	(623)
Other income	(2,621)	(7,135)
Interest (income)/expense	(85)	320
Depreciation and amortization	(100)	1,114
Provision for and write off of receivables	9	36
Provision for and write off of inventories	15	60
(Gain)/loss on disposal of quoted or unquoted investments or properties	-	(209)
Impairment of assets	-	-
Foreign exchange (gain)/ loss	(164)	(283)
(Gain)/ loss on derivatives	-	-
Exceptional items	-	-

26. AUTHORISATION FOR ISSUE

This interim financial report has been approved by the Board of Directors of the Company for issuance on 27 August 2015.