AVILLION BERHAD (244521 A)

A. NOTES TO THE INTERIM FINANCIAL REPORT

A1 Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with IAS 34 Interim Financial Reporting, Malaysian Financial Reporting Standards ("MFRS") 134 Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 March 2019. 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 year ended 31 March 2019.

The financial information presented herein has been prepared in accordance with the accounting policies to be used in preparing the annual consolidated financial statements for 31 March 2019 under the Malaysian Financial Reporting Standards (MFRSs) framework except for the adoption of the following MFRSs and Amendments to MFRSs:

Effective for annual period beginning on or after 1 January 2019

MFRS 16	Leases
Amendments to MFRS 9	Financial Instruments – Prepayment Features with Negative Compensation
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Treatments
Amentments to MFRS	Annual Improvements to MFRSs (2015-2017) Cycle

The adoption of the above standards and interpretation did not have a significant financial impact to the Group except for MFRS 16 as disclosed below:

<u>MFRS 16 Leases</u>

Under MFRS 16, a lease is a contract (or part of contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. MFRS 16 eliminates the classification of leases by the lessee as either finance leases or operating leases.

MFRS 16 requires the lessee to recognise in the statements of financial position, a 'right-of-use' of the underlying asset and a lease liability reflecting future lease payment for most leases, thus increasing the assets and liabilities of the lessee. The right-of-use asset is depreciated in accordance with the principle in MFRS 116 "Property, Plant and Equipment" and the lease liability is accreted over time with interest expense recognized in the statement of profit or loss.

On the date of initial application, the Group applied the simplified transition approach and did not restate comparative amounts for the period prior to first adoption.

The adoption of MFRS16 impacts the Group's financial performance in the current financial period as below:

a) On the statements of profit or loss, expenses which previously included operating lease rentals were replaced by interest expense on lease liabilities (included within finance cost) and depreciation of the right-of-use assets (included with depreciation)

b) On the statements of cashflow, lease rental outflows previously recorded within "net cash flows from operating activities were reclassified as "net cashflows used in financing activities" for repayment of the principal and interest of lease liabilities.

The Group have not adopted the following MFRSs, Amendments to MFRSs and interpretations that have been issued by the Malaysian Accounting Standard Board but are not yet effective:

Effective for annual period beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations
Amendments to MFRS 101	Presentation of Financial Statements
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors

Effective for annual periods beginning on or after 1 January 2021

MFRS 17	Insurance Contracts

The Group will adopt the above MFRSs, Amendments to MFRSs and interpretations when they become effective in the respective financial periods. These MFRSs and interpretations may have an impact on the amounts reported and disclosure made in the financial statements. However, it is not practicable to provide a reasonable estimate of the financial impacts of the above accounting standards until the Group performs the detailed review.

A2 Audit Report of Preceding Annual Financial Statement

The annual audited financial statement in the preceding year was not qualified.

A3 Seasonal or Cyclical Factors

The Group is principally engaged in the following business operations:

a) Hotel
b) Property
c) Travel

The major festivities and school holidays generally affect the performance of Hotel & Travel Division. The performance of Property Division is affected by the sentiments of the property cycle, as the division's profitability is dependent on the sale of its properties.

A4 Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flow

There were no unusual items affecting assets, liabilities, equity, net income or cash flows of the Group.

A5 Accounting Estimates

There were no changes in estimates of amounts reported in prior financial quarters of the current financial year or in prior financial years that have a material effect in the current financial quarter.

A6 Issuance or Repayment of Debt and Equity Securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial year to date.

A7 Dividend Paid

There were no dividends paid during the year under review.

A8 Segmental Reporting

a) Revenue

Continuing Operations	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30.06.2019 (RM'000)	Preceding Quarter Ended 30.06.2018 (RM'000)	Current Year Ended 30.06.2019 (RM'000)	Preceding Year Ended 30.06.2018 (RM'000)
Hotel	7,781	8,168	7,781	8,168
Property	2,840	2,440	2,840	2,440
Travel	4,391	23,701	4,391	23,701
Holding company & others	87	124	87	124
Grand Total	**15,099**	**34,433**	**15,099**	**34,433**

b) Profit/(Loss) before taxation

Continuing Operations	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30.06.2019 (RM'000)	Preceding Quarter Ended 30.06.2018 (RM'000)	Current Year Ended 30.06.2019 (RM'000)	Preceding Year Ended 30.06.2018 (RM'000)
Hotel	(1,762)	(1,728)	(1,762)	(1,728)
Property	(744)	(902)	(744)	(902)
Travel	(827)	(131)	(827)	(131)
Holding company & others	(1,868)	(1,276)	(1,868)	(1,276)
Grand Total	**(5,201)**	**(4,037)**	**(5,201)**	**(4,037)**

A9 Material events subsequent to the end of the financial year

There were no material events subsequent for the current financial period ended 30 June 2019 and up to the date of this report except on 5 July 2019, Bursa Malaysia Securities Berhad had approved the listing and quotation of up to 85,855,175 new shares to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities.

The Placement was completed following the listing and quotation of 85,855,000 Placement Shares on the Main Market of Bursa Securities on 2 August 2019.

A10 Changes in the Composition of the Group

There were no changes in the composition of the Group for the current financial period ended 30 June 2019 and up to the date of this report.

A11 Significant related party transactions

There were no significant related party transactions for the current financial period ended 30 June 2019 and up to the date of this report.

B. ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENT OF BURSA MALAYSIA SECURITIES BERHAD

B1 Review of Performance of the Company and its Principal Subsidiaries

Group Revenue performance compared to the preceding year's same quarter has reduced by 56%.

The reduction in revenue in the first quarter is mainly due to weak performance of Travel Division as a result of slowdown in the business of MICE (Meeting, incentive, convention and Exhibition).

The Group registered consolidated losses before tax of RM5.201 million as compared to consolidated loss of RM4.037 million in preceding year same quarter as a results of the weaker performance in the 1st Quarter.

B2 Material Changes in the Quarterly Results as compared to the Preceding quarter

The Group consolidated revenue for the reporting quarter has reduced by 30% in comparison to the preceding quarter. The reduction in revenue is mainly due to the following:

a) slowdown in the business of MICE for Travel Division.
b) Weak hotel performance during Ramadhan month.

The Group registered a consolidated loss before tax of RM5.201 million as compared to consolidated loss of RM26.547 million in preceding quarter.

B3 Variance from Profit Forecast

Not applicable.

B4 Commentary on Prospect

Hotel Division

To further improve the performance, improve market share and yield of the Hotel Division, the Division will embark progressively an asset enhancement and refurbishment program on some of its properties, beginning with our flagship, Avillion Port Dickson. The expected outcome is a new, refreshing and invigorating and unique experience for all our guests to all Avillion hotels and resorts. Our objective is to reclaim our dominant position as the preferred resort in Port Dickson and all the other locations where we have hotels and resorts.

To complement and reinforce the above efforts, the Division will implement an aggressive and marketing and sales strategy to boost occupancy and optimize yield and rates. Included in the strategy is training and re-training of all staff to enhance guest experience and achieve service excellence. To top it all, these efforts will be augmented by streamlining hotel operations and systems to achieve higher efficiency, productivity and economies of scale.

These efforts and strategies are expected to contribute to improved performance of this Division.

AVI Pangkor Beach Resort is due to be open for operation in the 3rd quarter of 2019.
AVI Johor Bahru is currently under construction and schedule to complete and open in Financial year 2022/23.

The Division will continue to pursue aggressively new management contracts to add to its current stable of hotels and resorts in FY 2019/2020 and in the future years.

Property Division

The main activity for this Division is the on-going Phase 2A, Desa Impian Johor. Residential unit sale has achieved 80% to-date but sale of commercial units has been challenging due to access to credit for potential buyers. We will carefully consider the launch of Phase 2B subject to property market condition. Development plans are also in progress for various parcels of prime land in Port Dickson and Kuala Lumpur in order to monetize these fixed assets. Plans are afoot to use these assets to generate cash flows to the Group.

Travel Division

The Division has gone through a rationalization exercise and is expected to have leaner structure and optimizing revenue.

However, we remain cautious of the performance of the Division as margin remain under pressure as a result of industry headwinds. We will continue to monitor and assess the performance of the business.

The recent disruption in Hong Kong has resulted in drastic dropped in the number of tourist arrival and significant fall-off in future bookings over the next few months. This has an adverse impact on our inbound business in Hong Kong which has seen a slowdown since June 2019.

As 2020 is designated as Visit Malaysia Year 2020, we anticipate more traction in terms of numbers of tourist especially from East Asia. We are exploring various opportunities with various parties domestically or from source countries to capitalize on the expected spike in tourist arrivals. Our Singapore and Hong Kong office are in the position to benefit from this arrangement by driving traffic into Malaysia from rest of the world.

B5 Loss before taxation

Loss before taxation is derived after charging / (credited) of the following:

	Individual Quarter		**Cumulative Period**	
	Current Quarter Ended 30.06.2019 (RM'000)	**Preceding Quarter Ended 30.06.2018 (RM'000)**	**Current Year Ended 30.06.2019 (RM'000)**	**Preceding Year Ended 30.06.2018 (RM'000)**
Interest income	(155)	(125)	(155)	(125)
Gain on disposal of Property, plant & Equipment / land	(162)	(362)	(162)	(362)
Rental income	(6)	(6)	(6)	(6)

B6 Taxation

	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30.06.2019 (RM'000)	**Preceding Quarter Ended 30.06.2018 (RM'000)**	**Current Year Ended 30.06.2019 (RM'000)**	**Preceding Year Ended 30.06.2018 (RM'000)**
a) Income Tax				
i) Current taxation	343	462	343	462
b) Total	**343**	**462**	**343**	**462**

The Group tax rate is higher than the statutory tax rate applicable due to the Provision of taxation on profit by certain subsidiary companies.

B7 Corporate proposals

There were no other corporate proposals announced during the current quarter.

B8 Group Borrowings

a) Banking Facilities

	As at 30.06.2019			As at 30.06.2018		
	Secured	**Unsecured**	**Total**	**Secured**	**Unsecured**	**Total**
a) Short term borrowings	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
i Overdraft	20,705	1,994	22,699	24,631	1,747	26,378
ii. Revolving Credit	12,500	-	12,500	13,500	-	13,500
iii. Long term loans repayable within 12 months	17,625	-	17,625	12,500	-	12,500
iv. Hire Purchase repayable within 12 months	52	-	52	110	-	110
v. Total	50,882	1,994	52,876	50,741	1,747	52,488
b) Long term borrowings						
i. Long term loans	65,111	-	65,111	72,486	-	72,486
Less portion of long term loans payable within 12 months	(17,625)	-	(17,625)	(12,500)	-	(12,500)
	47,486	0	47,486	59,986	0	59,986
ii. Hire purchase	225	-	225	178	-	178
Less portion of Hire purchase payable within 12 months	(52)	-	(52)	(110)	-	(110)
	173	0	173	68	0	68
iii. Total	47,659	0	47,659	60,054	0	60,054
c) Total borrowings	98,541	1,994	100,535	110,795	1,747	112,542

b) Foreign currency borrowings included in the above in Ringgit Malaysia equivalent as at 30 June 2019 was RM2.084 million (HKD3.929 million) and as at 30 June 2018 was RM4.025 million (HKD7.821 million).

B9 Derivative Financial Instruments

The Group is not a party to any financial instruments, which may have an effect to the derivative financial instruments at the date of this report.

B10 Material Litigation

There was no material litigation pending as at the date of this announcement.

B11 Losses Per Share

a) Basic

Basic losses per share is calculated by dividing the net loss attributable to the shareholders for the current financial period ended 30 June 2019 as follows:

	Individual Quarter		**Cumulative Period**	
	Current Quarter Ended 30.06.2019 (RM'000)	**Preceding Quarter Ended 30.06.2018 (RM'000)**	**Current Year Ended 30.06.2019 (RM'000)**	**Preceding Year Ended 30.06.2018 (RM'000)**
Net loss attributable to Equity holders of the Parent (RM'000)	(5,427)	(4,300)	(5,427)	(4,300)
Basic ('000) **Total Weighted average number of ordinary shares**	**858,552**	**858,552**	**858,552**	**858,552**
Basic losses per share(sen)	(0.63)	(0.50)	(0.63)	(0.50)

b) Diluted

Diluted earnings per share were not computed as the Company does not have any dilutive potential ordinary shares in issue as at the end of the current financial period ended 30 June 2019.

B12 Authorisation for Issue

The condensed consolidated interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 20 August 2019.