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 30.09.2019 (RM'000)	**Preceding Quarter Ended 30.09.2018 (RM'000)**	**Current Year Ended 30.09.2019 (RM'000)**	**Preceding Year Ended 30.09.2018 (RM'000)**
Hotel	9,438	10,179	17,219	18,347
Property	4,992	2,401	7,832	4,841
Travel	5,482	16,335	9,873	40,036
Holding company & others	(87)	167	0	291
Grand Total	**19,825**	**29,082**	**34,924**	**63,515**

b) Profit/(Loss) before taxation

Continuing Operations	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30.09.2019 (RM'000)	**Preceding Quarter Ended 30.09.2018 (RM'000)**	**Current Year Ended 30.09.2019 (RM'000)**	**Preceding Year Ended 30.09.2018 (RM'000)**
Hotel	(749)	37	(2,511)	(1,691)
Property	688	(1,199)	(56)	(2,101)
Travel	(290)	(112)	(1,117)	(243)
Holding company & others	(2,453)	(1,412)	(4,321)	(2,688)
Grand Total	**(2,804)**	**(2,686)**	**(8,005)**	**(6,723)**

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:

a) 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.

b) On 17 October 2019, the Company announced the listing and quotation of up to 188,881,350 Placement Shares and an issuance of up to 566,644,050 free warrants on the basis of one Warrant for every two ordinary shares of the Company held on an entitlement date to be determined by the Board and announced at a later date.

The Company had submitted the Listing application to Bursa Securities on 15 November 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 September 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 September 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 31.8%.

The reduction in revenue is mainly due to:

a) Travel Division
   The recent disruption in Hong Kong has resulted in a drastic drop in the number of tourist arrivals and affected our revenue for the current year 2nd quarter.
b) Hotel Division
   In view of the competitive business landscape, the Group has adopted a competitive pricing strategy in order to secure its revenue. The incident of haze in the month of September 2019 has resulted in many cancellations and thus lower business volume.

In view of the above, the Group registered consolidated loss before tax of RM2.804 million as compared to consolidated loss of RM2.686 million in preceding year same quarter

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

The Group consolidated revenue for the reporting quarter has improved by 31.3% in comparison to the preceding quarter. The higher revenue was contributed by the 3 core divisions due to higher business volume and seasonality.

The Group registered a lower consolidated loss before tax of RM2.804 million as compared to consolidated loss of RM5.201 million in preceding quarter.

B3 Variance from Profit Forecast

Not applicable.

B4 Commentary on Prospect

The management of our Group has put in place plans and strategies to improve our Group's business. With regards to the hotel division, being the main contributor to our Group's revenue, our Group has embarked on an asset enhancement and refurbishment program for some of our hotels and resorts, with the aim to reclaim our position as the preferred hotels and resort in Port Dickson and all the other locations where our hotels and resorts are located, as well as actively pursuing new hotel management contracts to add more hotels and resorts to our Group's hotel portfolio in order to provide a more comprehensive range of hotels and resorts to cater for different markets.

To complement and reinforce such efforts, our Group will also continue implementing aggressive marketing and sales strategies to boost the occupancy rate of our hotels and resorts, continue providing training to all our staff to improve their customer service skills as well as streamlining our hotel operations and systems to further improve efficiency and productivity, which in turn are expected to improve the performance of our hotel division.

In anticipation of higher number of tourist arrivals to Malaysia with the upcoming Visit Malaysia 2020, our Group is also in the midst of exploring various business opportunities with various parties domestically and other countries to enable our travel division to capitalise on the potential spike in tourist arrivals. Our offices in Singapore and Hong Kong will also assist in diverting tourists to Malaysia and our hotels and resorts.

However, given the recent disruption in Hong Kong which has resulted in a drastic drop in the number of tourist arrivals recorded by our Group and affected our tour bookings for the next few months, our Group will continue to monitor and assess the performance of our travel business in Hong Kong.

Presently, the only ongoing property development project of our Group is Phase 2A of the Desa Impian Project. However, our Group has embarked on the planning for the development of Phase 2B of the Desa Impian Project in mid-2019 and our property division will also undertake the refurbishment, extension and construction works of the Avillion Hotel and Avillion Admiral Cove Hotel & Resort in Pork Dickson. Notwithstanding that the planning work for Phase 2B of the Desa Impian Project has been carried out, our Group will continue to observe the property market conditions closely and carefully time the launch of Phase 2B and the subsequent phases of the Desa Impian Project. Our Group will also cautiously plan the development of the other parcels of land in Port Dickson and Kuala Lumpur owned by our Group.

Our Company is hopeful that with the successful implementation of our Group's strategies coupled with the anticipated benefits from the proposed utilisation of the proceeds from the Proposals, our business operations would be placed on a better footing to compete more effectively and contribute positively to our Group's financial performance moving forward.

B5 Loss before taxation

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

	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30.09.2019 (RM'000)	Preceding Quarter Ended 30.09.2018 (RM'000)	Current Year Ended 30.09.2019 (RM'000)	Preceding Year Ended 30.09.2018 (RM'000)
Interest income	87	(18)	(68)	(143)
Gain on disposal of Property, plant & Equipment / land	(162)	0	(162)	(362)
Rental income	(12)	(6)	(12)	(12)

B6 Taxation

	Individual Quarter		Cumulative Period	
	Current Quarter Ended 30.09.2019 (RM'000)	Preceding Quarter Ended 30.09.2018 (RM'000)	Current Year Ended 30.09.2019 (RM'000)	Preceding Year Ended 30.09.2018 (RM'000)
a) Income Tax				
i) Current taxation	344	377	687	839
b) Total	**344**	**377**	**687**	**839**

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 except:

a) On 17 October 2019, the Company announced the Proposed Listing and Quotation of up to 188,881,350 Placement Shares and Proposed issuance of up to 566,644,050 free warrants on the basis of one Warrant for every two ordinary shares of the Company held on an entitlement date to be determined by the Board and announced at a later date.

The Company had submitted the Listing application to Bursa Securities on 15 November 2019 and approved by Bursa on 21 November 2019.

B8 Group Borrowings

a) Banking Facilities

	As at 30.09.2019			As at 30.09.2018		
	Secured	Unsecured	Total	Secured	Unsecured	Total
a) Short term borrowings	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
i Overdraft	19,522	1,964	21,486	25,094	1,305	26,399
ii. Revolving Credit	12,500	-	12,500	13,500	-	13,500
iii. Long term loans repayable within 12 months	14,125	-	14,125	16,666	-	16,666
iv. Hire Purchase repayable within 12 months	52	-	52	97	-	97
v. Total	46,199	1,964	48,163	55,357	1,305	56,662
b) Long term borrowings						
i. Long term loans	60,611	-	60,611	70,402	-	70,402
Less portion of long term loans payable within 12 months	(14,125)	-	(14,125)	(16,666)	-	(16,666)
	46,486	0	46,486	53,736	0	53,736
ii. Hire purchase	212	-	212	147	-	147
Less portion of Hire purchase payable within 12 months	(52)	-	(52)	(97)	-	(97)
	160	0	160	50	0	50
iii. Total	46,646	0	46,646	53,786	0	53,786
c) Total borrowings	92,845	1,964	94,809	109,143	1,305	110,448

b) Foreign currency borrowings included in the above in Ringgit Malaysia equivalent as at 30 September 2019 was RM2.926 million (HKD5.48 million) and as at 30 September 2018 was RM4.196 million (HKD7.929 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 except:

a) Our Company has filed a suit (Civil Suit No.: WA-22NCC-120-03/2019) against Dato' Gan Eng Kwong ("**Dato' Gan**"), Reliance Holdings Sdn Bhd ("**RHSB**") and Alpha Vantage Sdn Bhd ("**AVSB**") (collectively, the "**Defendants**") on 12 March 2019 for a sum of RM5,591,892.09, being the advances made by our Company to Vacation Asia Holdings Sdn Bhd ("**VAH**") and Reliance Shipping and Travel Agencies Sdn Berhad ("**RSTA**"), both being our former subsidiaries (the "**Suit**").

   In 2011, our Company disposed of its 100% equity interest in VAH and RSTA to AVSB, a company owned by Dato' Gan, the former director and major shareholder of our Company. Pursuant to the said disposal, it was agreed that Dato' Gan, RHSB (the former major shareholder of our Company which Dato' Gan has equity interest in) and AVSB shall settle all the outstanding advances extended by our Company to VAH and RSTA according to the agreed payment schedule.

   However, the Defendants failed to settle the outstanding advances as agreed which has led to our Company filing the Suit to recover the said amount. On 15 April 2019, the Defendants filed an application to strike out the Suit and the said application was subsequently allowed by the High Court on 23 May 2019 on the basis that our Company should, among others, include VAH and RSTA as parties to the Suit as the advances were extended to VAH and RSTA.

   Our Company has appealed to the Court of Appeal (Civil Appeal No.: W-02(IM)(NCC)-1159-06/2019) against the striking out of the Suit and the appeal is fixed for hearing on 9 March 2020.

   Our Company has been advised by our solicitors that based on case law, our Company has a fair chance of succeeding at the Court of Appeal.

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 September 2019 as follows:

	Individual Quarter		**Cumulative Period**	
	Current Quarter Ended 30.09.2019 (RM'000)	**Preceding Quarter Ended 30.09.2018 (RM'000)**	**Current Year Ended 30.09.2019 (RM'000)**	**Preceding Year Ended 30.09.2018 (RM'000)**
Net loss attributable to Equity holders of the Parent (RM'000)	(3,306)	(2,918)	(8,733)	(7,218)
Basic ('000) **Total Weighted average number of ordinary shares**	**915,789**	**858,552**	**915,789**	**858,552**
Basic losses per share(sen)	(0.36)	(0.34)	(0.95)	(0.84)

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 September 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 22 November 2019.