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:

MFRS 16 Leases

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 31.12.2019 (RM'000)	Preceding Quarter Ended 31.12.2018 (RM'000)	Current Year Ended 31.12.2019 (RM'000)	Preceding Year Ended 31.12.2018 (RM'000)
Hotel	10,745	11,144	27,964	29,491
Property	3,555	2,695	11,387	7,536
Travel	4,501	11,760	14,374	51,796
Holding company & others	0	121	0	412
Grand Total	**18,801**	**25,720**	**53,725**	**89,235**

b) Profit/(Loss) before taxation

Continuing Operations	Individual Quarter		Cumulative Period	
	Current Quarter Ended 31.12.2019 (RM'000)	Preceding Quarter Ended 31.12.2018 (RM'000)	Current Year Ended 31.12.2019 (RM'000)	Preceding Year Ended 31.12.2018 (RM'000)
Hotel	2,573	1,296	62	(395)
Property	(333)	(2,436)	(389)	(4,537)
Travel	(110)	(615)	(1,227)	(858)
Holding company & others	(2,030)	(1,753)	(6,351)	(4,441)
Grand Total	**100**	**(3,508)**	**(7,905)**	**(10,231)**

A9 Material events subsequent to the end of the financial year

There were no material events subsequent for the current financial period ended 31 December 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 proposed 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 and approved by Bursa on 21 November 2019. The Proposed Private Placement was duly passed by the shareholders of the Company at the Extraordinary General Meeting held on 18 December 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 31 December 2019 and up to the date of this report other than the following:

a) Reliance Travel Pty Ltd, a wholly-owned subsidiary of the Company had been deregistered from Australian Securities Investment Commission on 13 February 2020

A11 Significant related party transactions

There were no significant related party transactions for the current financial period ended 31 December 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 26.9%.

The reduction in revenue was mainly due to the drastic drop in the revenue for Travel Division. The disruption in Hong Kong has resulted in the drop in the number of tourist arrivals to Hong Kong and affected our revenue for the current year 3rd quarter and year to date.

However, the Group registered a marginal consolidated profit before tax of RM0.1 million as compared to consolidated loss of RM3.508 million in preceding year same quarter. The improved in performance mainly due:

a) Hotel Division
Fee received from the termination of one of the Hotel Management Agreement in Melaka due to the disposal of the hotel.

b) Property Division
Higher revenue achieved from the sale of property at Desa Impian, Johor and lower interest cost.

c) Travel Division
Lower losses despite low revenue due to further cost rationalization for our Hong Kong and Singapore offices.

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

The Group consolidated revenue for the reporting quarter has reduced by 5.2% in comparison to the preceding quarter. While Hotel Division registered an increase of 13.8% in revenue, the lower Group revenue was mainly from the Travel Division and Property Division due to continue disruption in Hong Kong and lesser revenue recognized for property sold respectively.

The Group registered a marginal profit before tax of RM0.1 million as compared to consolidated loss of RM2.804 million in preceding quarter mainly due to the improved performance of Hotel Division and the fees received from the termination of one of the Hotel Management Agreement due to the disposal of the hotel.

B3 Variance from Profit Forecast

Not applicable.

B4 Commentary on Prospect

The outbreak of the 2019 novel coronavirus (Covid-19) and its declaration by the World Health Organization (WHO) as a global health emergency on 30 January 2020 has had a direct impact not only on Malaysia but more so the international tourism industry and other related sectors.

Avillion Berhad has not been spared this disruption and has become a victim of this unfortunate contagion. Avillion Hotel Group has reported cancellations for the month of February 2020 while forward bookings both from domestic and international markets have fallen drastically. Additionally, our travel business in Singapore and Hong Kong has registered similar cancellations and postponements in bookings. Following the initial civic protests and more recently, the Covid-19 outbreak, we do not foresee a positive outlook or quick recovery for our Hong Kong operations.

Taking a leaf from our experience during the SARS epidemic, the Management has taken proactive and counter measures, plans and strategies to combat the ripple effects of Covid-19 which is expected to last a few months. These strategies are also to ensure the Group stands ready and poised to reap the low hanging fruit upon any signs of recovery when the Covid-19 contagion is fully contained. Concurrently, the Management is also focused on tweaking sales and marketing strategies to mitigate the expected low bookings from international travelers. Our efforts are focused on the regional and domestic markets as international in-bound and out-bound are expected to be limited until Covid-19 is well and truly contained.

Amidst the expected continued lull in occupancy, the Hotel Division will intensify its asset enhancement and refurbishment program for some of our hotels and resorts. To ensure that resources are actively and gainfully employed, we have embarked on various training and skills enhancement programs to further improve efficiency, productivity and enhance customer satisfaction and experience. Improvements have also been made to streamline operations, flatten structures and human resources to be cost efficient and more effective without sacrificing quality and customer service.

The Property Division will focus on the on-going Phase 2A of the Desa Impian Project while planning for the development of Phase 2B of the Desa Impian Project. The division will also undertake the refurbishment, extension and construction works of the Avillion Hotel and Avillion Admiral Cove Hotel & Resort in Pork Dickson. The Group will also cautiously explore and study the development of the other parcels of land in Port Dickson and Kuala Lumpur under its ownership.

B5 Loss before taxation

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

	Individual Quarter		**Cumulative Period**	
	Current Quarter Ended 31.12.2019 (RM'000)	**Preceding Quarter Ended 31.12.2018 (RM'000)**	**Current Year Ended 31.12.2019 (RM'000)**	**Preceding Year Ended 31.12.2018 (RM'000)**
Interest income	18	(296)	(50)	(439)
Termination fee	(2,380)	0	(2,380)	0
Gain on disposal of Property, plant & Equipment / land	(162)	(229)	(162)	(362)
Rental income	(6)	(6)	(18)	(18)
Realized gain on foreign exchange	0	(3)	0	(3)

B6 Taxation

	Individual Quarter		Cumulative Period	
	Current Quarter Ended 31.12.2019 (RM'000)	**Preceding Quarter Ended 31.12.2018 (RM'000)**	**Current Year Ended 31.12.2019 (RM'000)**	**Preceding Year Ended 31.12.2018 (RM'000)**
a) Income Tax i) Current taxation	465	285	1,152	1,124
b) Total	**465**	**285**	**1,152**	**1,124**

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. The Proposed Private Placement was duly passed by the shareholders of the Company at the Extraordinary General Meeting held on 18 December 2019.

B8 Group Borrowings

a) Banking Facilities

	As at 31.12.2019			As at 31.12.2018		
	Secured	Unsecured	Total	Secured	Unsecured	Total
a) Short term borrowings	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)	(RM'000)
i Overdraft	19,491	1,975	21,466	20,558	1,978	22,536
ii. Revolving Credit	11,500	-	11,500	13,500	-	13,500
iii. Long term loans repayable within 12 months	15,000	-	15,000	16,270	-	16,270
iv. Hire Purchase repayable within 12 months	52	-	52	96	-	96
v. Total	46,043	1,975	48,018	50,424	1,978	52,402
b) Long term borrowings						
i. Long term loans	59,486	-	59,486	67,756	-	67,756
Less portion of long term loans payable within 12 months	(15,000)	-	(15,000)	(16,270)	-	(16,270)
	44,486	0	44,486	51,486	0	51,486
ii. Hire purchase	199	-	199	309	-	309
Less portion of Hire purchase payable within 12 months	(52)	-	(52)	(96)	-	(96)
	147	0	147	213	0	213
iii. Total	44,633	0	44,633	51,699	0	51,699
c) Total borrowings	90,676	1,975	92,651	102,123	1,978	104,101

b) Foreign currency borrowings included in the above in Ringgit Malaysia equivalent as at 31 December 2019 was RM0.496 million (HKD0.943 million) and as at 31 December 2018 was RM1.543 million (HKD2.92 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 31 December 2019 as follows:

	Individual Quarter		Cumulative Period	
	Current Quarter Ended 31.12.2019 (RM'000)	**Preceding Quarter Ended 31.12.2018 (RM'000)**	**Current Year Ended 31.12.2019 (RM'000)**	**Preceding Year Ended 31.12.2018 (RM'000)**
Net loss attributable to Equity holders of the Parent (RM'000)	(327)	(3,692)	(9,060)	(10,910)
Basic ('000) **Total Weighted average number of ordinary shares**	**915,789**	**858,552**	**915,789**	**858,552**
Basic losses per share(sen)	(0.04)	(0.43)	(0.99)	(1.27)

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 31 December 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 26 February 2020.