EXPLANATORY NOTES

1. Basis of Preparation

The condensed interim financial statements are unaudited and have been prepared in accordance with MFRS 134 "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad and should be read in conjunction with the Annual Audited Financial Statements for the year ended 31 December 2017.

These explanatory notes 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 December 2017.

2. Changes in Accounting Policies

At the date of authorization of these interim financial statements, the following MFRSs, Amendments to MFRSs and IC interpretation will be applied by the Group and Company when they become effective in the respective financial periods:

MFRSs, Interpretations and amendments effective for annual periods beginning on 1 January 2018

- MFRS 9 Financial Instruments
- MFRS 15 Revenue from Contracts with Customers
- Amendments to MFRS 1, First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements to MFRS Standards 2014-2016)
- Amendments to MFRS 2, Share-based Payment - *Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 140, Investment Property – Transfers of Investment Property
- IC Interpretation 22, Foreign Currency Transactions and Advance Consideration
- Amendments to MFRS 128, Investment in Associates and Joint Ventures (Annual Improvements to MFRS Standards 2014-2016 Cycle)
- Amendments to MFRS 4, Insurance Contract – Applying MFRS 9 Financial Instrument with MFRS 4 Insurance Contract
- Amendments to MFRS 15 Revenue from Contract with Customers – Clarification to MFRS 15

2. Changes in Accounting Policies (*continued)*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2019

- MFRS 16 Leases
- Amendments to MFRS 3 Business Combinations (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 9 Financial Instruments – Prepayment Features with Negative Comparison
- Amendments to MFRS 11 Joint Arrangements (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 112 Income Taxes (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 123 Borrowing Costs (Annual Improvements to MFRS Standards 2015-2017 Cycle)
- Amendments to MFRS 128 Investments in Associates and Joint Ventures – Long-term Interest in Associates and Joint Ventures
- IC Interpretation 23 Uncertainty over Income Tax Treatments

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, Insurance Contracts

Amendments to MFRSs effective for annual periods beginning on or after a date yet to be confirmed

- Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Ventures - Sales or Contribution of Assets between an Investor and its Associates and Joint Venture

None of the standards listed above are expected to have a significant effect on the financial statements of the Company upon initial application, except for the following:-

- MFRS 9 "Financial Instruments" (effective 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  MFRS 9 retains but simplifies the mixed measurement model in MFRS 139 and establishes three primary measurement categories for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income ("OCI"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are always measured at fair value through profit or loss with an irrevocable option at inception to present changes in fair value in OCI (provided the instrument is not held for trading). A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest.

2. Changes in Accounting Policies (*continued)*

None of the standards listed above are expected to have a significant effect on the financial statements of the Company upon initial application, except for the following:-

- MFRS 9 "Financial Instruments" (effective 1 January 2018) will replace MFRS 139 "Financial Instruments: Recognition and Measurement".

  For liabilities, the standard retains most of the MFRS 139 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the profit or loss, unless this creates an accounting mismatch.

  MFRS 9 introduces an expected credit losses model on impairment that replaces the incurred loss impairment model used in MFRS 139. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

  Based on the assessment undertaken to date, the Group does not expect the above new requirements to affect the classification and measurements of its financial assets and financial liabilities whilst the impairment requirements are expected to result in a higher allowance for impairment losses. The final impacts are still being assessed and may be adjusted as necessary.

- MFRS 15 “Revenue from Contracts with Customers” (effective 1 January 2018) will replace MFRS 118 “Revenue” and MFRS 111 “Construction Contract’’ and related interpretations.

  The core principle in MFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  Revenue is recognised when a customer obtains control of goods or services, i.e., when the customer has the ability to direct the use of and obtain the benefits from the goods or services.

2. Changes in Accounting Policies (*continued)*

None of the standards listed above are expected to have a significant effect on the financial statements of the Company upon initial application, except for the following:-

- MFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2018) will replace MFRS 118 "Revenue" and MFRS 111 "Construction Contracts" and related interpretations.

  A new five-step process is applied before revenue can be recognised:
  - Identify contracts with customers;
  - Identify the separate performance obligations;
  - Determine the transaction price of the contract;
  - Allocate the transaction price to each of the separate performance obligations; and
  - Recognise the revenue as each performance obligation is satisfied.

  Key provisions of the new standard are as follows:
  - Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
  - If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
  - The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
  - There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
  - As with any new standards, there are also increased disclosures.

The Group and the Company are in the process of finalising the financial implication arising from the adoption of this new standard and expects no significant impact to the revenues and other income for the Group and the Company.

3. Seasonality and Cyclically Factors

The business of the Group was not significantly affected by any seasonal or cyclical factors.

4. Nature and Amount of Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flow

There were no unusual material items that affect assets, liabilities, equity, net income or cash flows of the Group for the current quarter.

5. Changes in Estimates

There were no changes to the estimates of amount reported in the prior financial year that have a material effect in the current quarter.

6. Issuances, Cancellations, Repurchases, Resale and Repayment of Debts & Equity Securities

There were no issuances and repayments of debts and equity securities, shares buy-backs, shares cancellations, shares held as treasury shares and/or resale of treasury shares by the Company for the current quarter under review.

7. Dividend Paid

There were no dividends paid during the current quarter and current financial year to-date.

8. Segmental Reporting

The segmental report of the Group for the current year to-date and preceding year corresponding period is as follows: -

	12 months ended 31.12.2018 RM'000	12 months ended 31.12.2017 RM'000
Segment Revenue		
Construction	**33,826**	27,406
	33,826	27,406
Segment Results (Profit Before Taxation)		
Construction	**10**	272
Rental	**234**	234
	246	806

9. Carrying Amount of Revalued Property, Plant and Equipment

There were no valuation of property, plant and equipment in the Group, the amount accounted is the net book value based on the cost of acquisition less accumulated depreciation.

10. Subsequent Material Events

There was no subsequent material events not reflected in the financial statements from the end of 31 December 2018 until 21 February 2019 being a date not earlier than 7 days from the date of issuance of this quarterly report.

11. Material Uncertainty Related To Going Concern

The Board of Lebtech Berhad ("LB" or "the Company") wishes to announce that the Company external auditors Messrs Afrizan Tarmili Khairul Azhar had expressed a statement of "Material Uncertainty Related To Going Concern" ("statement") in relation to the Company's audited financial statements for the financial year ended 31 December 2017.

Pursuant to Rule 9.19(37) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the description of the statement is as follows:

We draw attention to Note 23.3 to the Group's audited financial statements for the year ended 31 December 2017. The Group conducts it activities during the year mainly with related parties and these have been approved during the Group's Annual General Meeting. This inadvertently increase the exposure to credit risk and going concern risk. For the financial year ended at 31 December 2017, the Group through its subsidiary company derived 100% of its revenue from related parties and at the balance sheet date, 98% of Group's trade receivables are due from related parties. Our opinion is not qualified in respect of this matter.

The Board further informs that the key audit matters as reported by the Independent Auditor's Report for the Financial Year 2017 is as follows:

Key Audit Matters	**How Our Audit Addressed The Key Audit Matters**
Revenue and cost recognition of construction contracts Group's contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract as discussed in notes 4 (m)(i) and 17 to the financial statements. We identified revenue recognition in respect of construction contract to be an area of audit focus as the determination of the stage of completion requires the management to exercise significant judgment in estimating the total costs to complete and contract profit. In estimating the total costs to complete, the Group considers the completeness and accuracy of its cost estimation, including its obligation to contract variation, claims and cost contingencies. The total cost to complete including sub-contractor costs, varies with market conditions and may also be incorrectly forecasted due to unforeseen events during construction.	Our audit procedures performed in this area included, among others:- • We performed a detail analysis of the costing schedule for the contract used to calculate the stage of completion, for significant construction contract; • We performed test of details to verify the amount of cost incurred and recognised in the profit or loss and re-computation of the percentage of completion of the contract to ensure the accuracy of the recognition of revenue and cost; and • We examined potential foreseeable loss on the significant construction contract.
Recoverability of amount due from related parties Refer to note 4 (j)(i) - Significant accounting policies of financial assets The Group carries significant amount due from related parties as disclosed in Note 10 to the financial statements and is subject to major credit risk exposures. The assessment of	Our audit procedures performed in this area included, among others:- Obtaining an understanding of the Group's: Control over the receivables approval and collection process; • Process to identify and assess the impairment of receivables; and • Policy to determine the accounting estimate for the impairment of receivables

recoverability of receivables involved judgments and estimation uncertainty in analysing historical bad debts, customer creditworthiness, customer payment terms and current economic trends. The recoverability of receivables from related parties, impairment and allowance for doubtful debts are considered to be a significant risk due to the pervasive nature of these balances to the financial statements and affect the working capital management of the business. We focused our testing of the impairment and recoverability of trade receivables on the key assumptions made by the management.	• Reviewing the aging analysis and testing the reliability thereof; • Reviewing subsequent receipt and ensure the receipts are in respect of the outstanding balance as at the reporting date; • Challenged management's view on credit risk of trade receivables and take into consideration the historical patterns for outstanding trade receivables, reviewing other evidence including related parties financial position based on latest audited accounts and holding discussions with those charged with governance and management personnel; • Evaluate whether the model used to calculate the recoverable amount complies with the requirement of applicable standards; and • Assessing the adequacy of the Group's disclosures in respect of credit risk.

In relation to the above, the Board wishes to advise the following:

(a) The Independent Auditors have expressed their unqualified opinion for the Financial Year 2017;

(b) The Company and the Group has commenced the process to address the issue of recognition of the Group's contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract. This is mainly due to the applicable practice under FRS111 which is applicable to cost plus contracts and is subject to estimation of the completion of the contract.

(c) The Company and the Group is continuously seeking avenues for other projects that are outside the related party transactions and is continuously easing the reliability on related party transactions which includes the settlement of transactions between related parties and ensuring that the impact to the Company and the Group is minimal.

12. Changes in The Composition of The Group / Capital Structure

There were no changes in the composition or capital structure of the Group during the current quarter under review.

13. Changes in Contingent Liabilities and Contingent Assets

Contingent liabilities of the Group as at 21 February 2019 being a date not earlier than 7 days from the date of issue of this quarterly report comprises of Bank Guarantees and Corporate Guarantees provided by the Group to the various parties in the normal course of business and the changes in contingent liabilities since the last annual balance sheet are as follows: -

	Bank Guarantee RM'000	Corporate Guarantee RM'000	
Balance as at 1 January 2018	100	7,900	
Additional during the period	-	-	
Expired/Cancelled during the period	-	-	
Balance as at 21 February 2019	100	7,900	**

** Included in the Corporate Guarantee, a total sum of RM7.90 million is guaranteed by the Company extended to a Financial Institution as security for banking facilities granted to its wholly owned subsidiary.

There were no contingent assets as at the report date.

14. Capital Commitments

There were no capital commitments that have a material effect in the current interim financial period.

15. Significant Related Party Disclosures

Related parties are those defined under FRS 124 (Related Party Disclosures).

The following are the related party transactions of the Group for the current year quarter and current year to-date under review.

Lebtech Bhd & its subsidiary	Transacting Party	Relationship	Nature of Transaction	Current Year Quarter RM'000	Current Year To-date RM '000	Balance Outstanding (Including Retention) As at 31-12-2018 RM'000
Lebtech Construction Sdn Bhd	Lebar Daun Development Sdn Bhd	Company connected with major shareholders and Directors	Construction Revenue Receivable from	-	-	86,739
Lebtech Construction Sdn Bhd	Basco Sdn Bhd	Company connected with major shareholders and Directors	Construction Revenue Receivable from	2,025	4,510	41,706
			Construction Cost Payable to	-	-	-
Lebtech Construction Sdn Bhd	Lebar Daun Development Sdn Bhd	Company connected with majors shareholders and Directors	Rental Revenue Received from	58	234	234

16. Group Performance Review

The revenue for the current financial quarter ended 31 December 2018 increased by 321.9% to RM8.43 million from RM1.99 million recorded in preceding corresponding period. Cumulatively, the revenue recorded for the period ended 31 December 2018 increased by 23.42% to RM33.82 million from RM27.40 million recorded in the preceding corresponding period.

For the current financial quarter, the Group recorded a loss before taxation of RM0.89 million as compared to a loss before taxation of RM2.52 million for the preceding corresponding period. Cumulatively, profit before taxation for the period ended 31 December 2018 stood at RM0.24 million as compared to a profit before taxation of RM0.8 million for the preceding corresponding period.

The increase in revenue was mainly due to the fast progress in construction contracts undertaken by the Group. The loss before taxation recorded was due to the impairment loss on receivables. The results relate solely to the construction operating segment.

17. Comparison with Preceding Quarter's Results

The Group recorded revenue of RM8.43 million for the current quarter as compared to RM9.18 million in the immediate preceding quarter. The Group recorded a loss before taxation of RM0.89 million as compared to a profit before taxation of RM0.3 million in the immediate preceding quarter.

The decrease in profit before taxation was mainly due to the impairment loss on receivables. The results relate solely to the construction operating segment.

18. Prospect for the Financial Year 2019 (Current Year's Prospect)

The Group remain cautious in view of challenging year of 2019 with the Board foresees the Group's operational results to be equally challenging**.**

The revenue generation mainly come from the construction contracts of property development projects with significant effort be given to secure new construction jobs to improve the order book. The Group expects construction industry to record slower growth in year 2019 amid revision of mega projects and in line with the slowdown in the global construction sector.

19. Variances on Profit Forecast and Profit Guarantee for Financial Year Ending 31 December 2018.

Not applicable as there was no profit forecast and profit guarantee issued.

20. Taxation

The taxation for the current quarter consists of the followings: -

	Current year quarter	Preceding year corresponding quarter	**Current year-to-date**	Preceding year corresponding period
	31.12.2018 RM'000	31.12.2017 RM'000	**31.12.2018 RM'000**	31.12.2017 RM'000
Corporate tax				
- current year	**(190)**	(1,026)	**140**	473
- deferred tax	**-**	-	**-**	-
	(190)	(1,026)	**140**	473

21. Status of Corporate Proposals

There was no corporate proposal announced that has not been completed as at 21 February 2019 (the latest practicable date which is not earlier than 7 days from the date of issue of this quarterly report).

22. Borrowings and Debt Securities

The details of the Group borrowings and debts securities as at 31 December 2018 are as follows: -

	Short term		**Long term**	
	Secured RM'000	**Unsecured RM'000**	**Secured RM'000**	**Unsecured RM'000**
Bank term loan	-	-	918	-
	-	-	918	-

23. Notes to the Statement of Comprehensive Income

Additional disclosures of items not disclosed elsewhere in this announcement, which have been included in the condensed consolidated Statement of Comprehensive Income for the first quarter and financial year ended 31 December 2017: -

	Year Quarter 31.12.2018 RM'000	Corresponding Quarter 31.12.2017 RM'000	**Year To-date 31.12.2018 RM'000**	Corresponding Period 31.12.2017 RM'000
(a) Allowance for doubtful debts	Nil	Nil	Nil	Nil
(b) Provision for and write off of inventories	Nil	Nil	Nil	Nil
(c) Gain on disposal of property, plant and equipment	Nil	Nil	40	Nil
(d) Impairment gain on available-for-sale investment	Nil	Nil	Nil	Nil
(e) Reversal of trade payables	Nil	Nil	Nil	Nil
(f) Foreign exchange gain or loss	Nil	Nil	Nil	Nil
(g) Gain or loss on derivatives	Nil	Nil	Nil	Nil
(h) Exceptional items	Nil	Nil	Nil	Nil
(i) Gain on disposal of available-for-sale investment	Nil	Nil	Nil	Nil
(k) Reversal of impairment on trade receivables	274	Nil	274	Nil

24. Off Balance Sheet Financial Instrument

The Group does not have any off balance sheet financial instrument as at the date of this report.

25. Material Litigation

Neither the Company nor its subsidiary is engaged in any material litigation and arbitration, either as plaintiff or defendant, which has a material effect and adversely affect on the financial position of the Group.

26. Dividends

The Board does not recommend any interim dividend in respect of the current quarter under review.

27. Earnings Per Share

Basic earnings per share
Basic earnings per share is calculated by dividing the net profit/(loss) for the period by the weighted average number of ordinary shares issued during the period.

		Current Year Quarter 31.12.2018	Preceding Year Corresponding Quarter 31.12.2017	**Current Year To-date 31.12.2018**	Preceding Year Corresponding Period 31.12.2017
Basic earnings per share					
- (Loss)/profit for the period	(RM'000)	**(699)**	(1,497)	**106**	333
- Weighted average number of ordinary shares in issue	('000)	**136,484**	136,484	**136,484**	136,484
- Basic earnings per share	(sen)	**(0.51)**	(1.10)	**0.08**	0.24

28. Realised and Unrealised Retained Earnings

The breakdown as at 31 December 2018 is as follows: -

	As at 31.12.2018 RM'000	As at 31.12.2017 RM'000
Retained earnings/(loss)		
- Realised	**54,126**	54,020
- Unrealised	**(2,960)**	(2,960)
Total group retained earnings	**51,166**	51,060

By Order of the Board,

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Norazmi Bin Mohamed Nurdin
Managing Director

Date: 21 February 2019