

KNUSFORD BERHAD (380100-D)

Condensed consolidated statement of financial position

As At 30 September 2016

	At 30 September 2016 RM'000	At 31 December 2015 (audited) RM'000
Assets		
Property, plant and equipment	19,849	20,463
Investment properties	100,113	86,109
Investment in joint venture	4,487	2,419
Deferred tax assets	520	66
Total non-current assets	124,969	109,057
Inventories	55,262	33,865
Trade and other receivables	124,832	164,888
Tax recoverable	7,872	9,576
Cash and cash equivalents	30,437	53,284
Total current assets	218,403	261,613
Total assets	343,372	370,670
Equity		
Share capital	99,645	99,645
Share premium	22,693	22,693
Retained earnings	157,554	168,296
Total equity attributable to equity holders of the Company	279,892	290,634
Liabilities		
Loans and Borrowings	1,405	1,762
Deferred tax liabilities	1,605	1,776
Total non-current liabilities	3,010	3,538
Trade and other payables	56,921	71,091
Loans and Borrowings	3,529	1,308
Current tax payable	20	4,099
Total current liabilities	60,470	76,498
Total Liabilities	63,480	80,036
Total equity and liabilities	343,372	370,670
Net assets per share (RM)	2.8089	2.9167

(The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.)

KNUSFORD BERHAD (380100-D)**Condensed consolidated statement of profit or loss and other comprehensive income**
For the financial period ended 30 September 2016

	Current 3 months ended 30 September		Cumulative 9 months ended 30 September	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Continuing operations				
Revenue	31,245	24,511	95,068	121,300
Cost of sales	<u>(31,147)</u>	<u>(20,419)</u>	<u>(92,224)</u>	<u>(108,888)</u>
Gross profit	98	4,092	2,844	12,412
Other income	55	736	880	4,963
Administrative expenses	<u>(3,398)</u>	<u>(3,956)</u>	<u>(12,926)</u>	<u>(12,623)</u>
Results from operating activities	(3,245)	872	(9,202)	4,752
Interest income	170	376	726	1,184
Interest expense	<u>(391)</u>	<u>(103)</u>	<u>(671)</u>	<u>(350)</u>
	<u>(3,466)</u>	<u>1,145</u>	<u>(9,147)</u>	<u>5,586</u>
Share of results of joint venture	-	-	268	-
(Loss)/Profit before tax	<u>(3,466)</u>	<u>1,145</u>	<u>(8,879)</u>	<u>5,586</u>
Taxation	<u>(114)</u>	<u>(1,089)</u>	<u>130</u>	<u>(2,207)</u>
(Loss)/Profit after tax / Total comprehensive (loss)/income for the period	<u><u>(3,580)</u></u>	<u><u>56</u></u>	<u><u>(8,749)</u></u>	<u><u>3,379</u></u>
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(3,580)	56	(8,749)	3,379
Minority interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive (loss)/income for the period	<u><u>(3,580)</u></u>	<u><u>56</u></u>	<u><u>(8,749)</u></u>	<u><u>3,379</u></u>
(Loss)/Earnings per share attributable to equity holders of the parent				
EPS - Basic (sen)	<u>(3.59)</u>	<u>0.06</u>	<u>(8.78)</u>	<u>3.39</u>
EPS - Diluted (sen)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

(The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.)

KNUSFORD BERHAD (380100-D)**Condensed consolidated statement of changes in equity
For the financial period ended 30 September 2016**

	Attributable to the Equity Holders of the Parent				Minority interest RM'000	Total Equity RM'000
	Non-distributable Share capital RM'000	Share premium RM'000	Distributable Retained profits RM'000	Total RM'000		
At 1 January 2016	99,645	22,693	168,296	290,634	-	290,634
Total comprehensive loss for the period	-	-	(8,749)	(8,749)	-	(8,749)
Dividend	-	-	(1,993)	(1,993)	-	(1,993)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2016	<u>99,645</u>	<u>22,693</u>	<u>157,554</u>	<u>279,892</u>	<u>-</u>	<u>279,892</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2015	99,645	22,693	171,667	294,005	-	294,005
Total comprehensive income for the period	-	-	3,379	3,379	-	3,379
Dividend	-	-	(4,982)	(4,982)	-	(4,982)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2015	<u>99,645</u>	<u>22,693</u>	<u>170,064</u>	<u>292,402</u>	<u>-</u>	<u>292,402</u>

(The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.)

KNUSFORD BERHAD (380100-D)

Condensed consolidated statement of cash flows

For the financial period ended 30 September 2016

	30 September 2016 RM'000	30 September 2015 RM'000
<i>Cash flows from operating activities</i>		
(Loss)/Profit before tax	(8,879)	5,586
Adjustments for:		
Depreciation of property, plant and equipment	2,516	2,559
Depreciation of investment property	961	844
Gain on disposal of plant and equipment	(75)	(601)
Share of results of joint venture	(268)	-
Interest expense	671	350
Interest income	(726)	(1,184)
Operating (loss)/profit before changes in working capital	<u>(5,800)</u>	<u>7,554</u>
Changes in working capital:		
Inventories	(21,397)	(6,348)
Receivables, deposits and prepayments	40,056	158,113
Payables and accruals	(14,170)	(131,229)
Cash (used in)/generated from operations	<u>(1,311)</u>	<u>28,090</u>
Income taxes paid	<u>(2,868)</u>	<u>(6,813)</u>
Net cash (used in)/generated from operating activities	<u>(4,179)</u>	<u>21,277</u>
<i>Cash flows from investing activities</i>		
Acquisition of property, plant and equipment	(1,028)	(795)
Acquisition of investment property	(14,965)	(10,183)
Investment in joint venture company	(1,800)	(336)
Interest received	726	1,184
Proceeds from disposal of plant and equipment	78	1,182
Net cash used in investing activities	<u>(16,989)</u>	<u>(8,948)</u>
<i>Cash flows from financing activities</i>		
Dividend paid	(1,993)	(4,982)
Interest paid	(671)	(350)
Proceed from borrowings	2,000	-
Repayment of finance lease liabilities	(1,015)	(1,291)
Net cash used in financing activities	<u>(1,679)</u>	<u>(6,623)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(22,847)</u>	<u>5,706</u>
Cash and cash equivalents at beginning of year	<u>53,284</u>	<u>56,020</u>
Cash and cash equivalents at end of period	<u>30,437</u>	<u>61,726</u>
Cash & bank balance	7,506	2,704
Deposits with licensed banks (excluding deposits pledged)	22,931	59,030
Bank Overdraft	-	(8)
	<u>30,437</u>	<u>61,726</u>

(The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the year ended 31 December 2015 and the accompanying explanatory notes attached to the interim financial statements.)

KNUSFORD BERHAD (380100-D)

Notes to the interim financial report – 30 September 2016

A1 Basis of preparation

The financial statements of the Group and the Company have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”), International Financial Reporting Standards (“IFRS”) and the requirements of the Companies Act, 1965 in Malaysia.

The following are accounting standards, amendments and interpretations of the MFRSs that have been issued by the Malaysian Accounting Standards Board (“MASB”) but have not been adopted by the Group and the Company:

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2017

- Amendments to MFRS 107, *Statement of Cash Flows – Disclosure Initiative*
- Amendments to MFRS 112, *Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*

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

- MFRS 9, *Financial Instruments* (2014)
- MFRS 15, *Revenue from Contracts with Customers*

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

- MFRS 16, *Leases*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements* and MFRS 128, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group and Company plan to apply the above mentioned accounting standards, amendments and interpretations;

- from the annual period beginning on 1 January 2017 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2017; and
- from the annual period beginning on 1 January 2018 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2018; and
- from the annual period beginning on 1 January 2019 for those accounting standards, amendments or interpretations that are effective for annual periods beginning on or after 1 January 2019; and

The initial application of the accounting standards, amendments or interpretations, where applicable, are not expected to have any material financial impact to the current period and prior period financial statements of the Group and the Company except as mentioned below:

MFRS 15, Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111, *Construction Contracts*, MFRS 118, *Revenue*, IC Interpretation 13, *Customer Loyalty Programmes*, IC Interpretation 15, *Agreements for Construction of Real Estate*, IC Interpretation 18, *Transfers of Assets from Customers* and IC Interpretation 131, *Revenue - Barter Transactions Involving Advertising Services*.

The Group and Company are currently assessing the financial impact that may arise from the adoption of MFRS 15.

MFRS 9, Financial Instruments

MFRS 9 replaces the guidance in MFRS 139, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and financial liabilities, and on hedge accounting.

The Group and Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The Group and Company is currently assessing the financial impact that may arise from the adoption of MFRS 16.

A2 Auditors' report

There was no qualification on the audited report of the Group's preceding annual financial statements.

A3 Seasonal or cyclical factors

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

A4 Unusual items due to their nature, size or incidence

There were no unusual items for the period ended 30 September 2016.

A5 Changes in estimates

Not applicable.

A6 Debt and equity securities

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current quarter and 9 months ended 30 September 2016.

A7 Dividends paid

The shareholders have on 28 April 2016 approved the payment of a first and final dividend for the financial year ended 31 December 2015 as follows: -

	RM
First and final single tier dividend of 2 sen per ordinary shares	1,992,900
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The said dividend was paid on 20 September 2016 to members whose names appear in the Record of Depositors on 30 August 2016.

A8 Segmental information

Segmental information is presented in respect of the Group's business segment. Inter-segment pricing is determined based on negotiated terms.

	9 months ended 30 September 2016 Revenue RM '000	9 months ended 30 September 2015 Revenue RM '000	9 months ended 30 September 2016 Loss before tax RM '000	9 months ended 30 September 2015 Profit before tax RM '000
Trading and services	80,974	119,143	(3,501)	4,753
Property development	-	4,269	(3,136)	695
Construction	12,985	1,492	(1,672)	(36)
Investment Property	2,147	1,857	359	732
	96,106	126,761	(7,950)	6,144
Inter-segment eliminations	(1,038)	(5,461)	(28)	(294)
Unallocated income	-	-	995	1,184
Unallocated expenses	-	-	(1,896)	(1,448)
	95,068	121,300	(8,879)	5,586

A9 Valuation of property, plant and equipment

Valuation of property, plant and equipment has been brought forward, without amendment from the preceding annual financial statements.

A10 Event subsequent to the balance sheet date

There were no material events subsequent to the balance sheet date.

A11 Changes in composition of the Group

There were no changes in the composition of the Group for the current quarter and 9 months ended 30 September 2016.

A12 Changes in contingent liabilities

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

	As at 30 September 2016
	RM'000
Guarantees and contingencies relating to Borrowings of subsidiaries	2,000
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A13 Significant Related Party Transactions

The group has significant related party transactions with companies in which certain directors of the Company have interest, as follows: -

	9 months ended
	30 September 2016
	RM'000
With companies in which certain Directors of the Company, have interests:	
Aramijaya Sdn Bhd	795
Danga Bay Sdn Bhd	3,269
Ekoriver Construction Sdn Bhd	115
Ekovest Construction Sdn Bhd	14,339
Iskandar Waterfront City Bhd and its subsidiaries	9,677
Iskandar Waterfront Sdn Bhd	385
Pembinaan KS Tebrau Sdn Bhd	364
Rampai Fokus Sdn Bhd	2,186

B1 Detailed analysis of the performance of all operating segment of the Group

The Group recorded a revenue of RM95.068 million and loss before tax of RM8.879 million for the 9 months ended 30 September 2016 as compared to revenue of RM121.300 million and profit before tax of RM5.586 million for the preceding year corresponding period.

Performance of the respective operating business segments for the 9 months ended 30 September 2016 as compared to the preceding year corresponding period are analysed as follows: -

Trading and services

The decrease in revenue and loss before tax recorded by the division were mainly due to the decrease in sales volume.

Property development

No revenue was recognised during the period. The loss before tax was mainly due to sales and marketing cost and non-claimable GST expenses incurred on exempt supply. The preceding year to-date revenue and profit before tax are from the disposal of a piece of development land.

Construction

Despite an increase in the revenue, the division recorded a loss before tax mainly due to commencement of construction works with lower profit margin and increase in overheads.

Investment property

The decrease in the profit before tax was mainly due to additional depreciation for the newly purchased investment properties and additional provision for doubtful debts.

B2 Comparison with preceding quarter results

For the quarter under review, the Group recorded a loss before taxation of RM3.466 million on a revenue of RM31.245 million as compared to a loss before taxation of RM2.530 million on a revenue of RM31.549 million for the preceding quarter. The marginal decrease in the revenue is mainly due to decrease in the sales volume and increase in loss before tax is mainly due to additional provision for doubtful debts during the quarter.

B3 Prospects

The sluggish outlook for the construction and property development industry where the Group business substantially depends on, is expected to prolong and remain challenging to the Group's performance. Nevertheless, the Group will continue to look for new business opportunities and tender for new potential projects in its effort to maintain satisfactory results. As part of the Group's effort to expand its revenue base, the Group has ventured into oil and gas onshore civil construction in Pengerang, Johor.

B4 Variance of actual profit from forecast profit / profit guarantee

Not applicable.

B5 Taxation

	Current quarter ended 30 September 2016 RM '000	9 months ended 30 September 2016 RM '000
Income tax		
Current provision	247	524
Over provision in prior year	84	(201)
Deferred tax	(217)	(453)
	<u>114</u>	<u>(130)</u>

B6 Corporate proposals

There were no corporate proposals announced or pending completion as at the date of this report.

B7 Group borrowings

	As at 30 September 2016 RM '000
Current:	
Bank overdraft	-
Revolving credit	2,000
Finance lease liabilities	1,529
	<hr/>
	3,529
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Non-current:	
Finance lease liabilities	1,405
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B8 Changes in material litigation.

Save as disclosed below, neither the Company nor its subsidiaries are engaged in any material litigation, claims or arbitration, either as plaintiff or defendant and the Board are not aware and do not have any knowledge of any proceedings, pending or threatened against the Group or any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Company and its subsidiaries:

The wholly-owned subsidiary of Knusford Berhad (“KB”), Knusford Marketing Sdn Bhd (“KMKS B”) has commenced legal proceedings against Kinsteel Berhad (“Kinsteel”) and its subsidiary, Kin Kee Marketing Sdn Bhd (“Kin Kee”) claiming for the following:

KMKS B is claiming for the following from Kin Kee:

- a) The sum of RM20,074,567.90;
- b) Interest on the RM20,074,567.90 at 3% per annum and continuing from 7 May 2014 (being the date of the first instalment paid under the Agreement) till the date of final settlement;
- c) Cost; and
- d) All other orders that the court may deem fit.

And KMKS B is also claiming for the following from Kinsteel:

- a) The sum of RM20,074,567.90;
- b) Interest on the RM20,074,567.90 at 3% per annum and continuing from 7 May 2014 till 8 April 2016 (being the date of expiry of the Plaintiff’s written notice);
- c) Interest on the RM20,074,567.90 at 8% per annum and continuing from 9 April 2016 till the date of final settlement;
- d) Cost; and
- e) All other orders that the court may deem fit.

The Claim is made by KMKS B against Kin Kee for failing to deliver steel bars in the agreed quantity (“Agreement”) which has been paid and Kinsteel has provided an irrevocable corporate guarantee to secure the performance of Kin Kee (“Guarantee”). KMKS B has served a writ of summons and statement of claim against Kinsteel and Kin Kee on 28 April 2016, claiming for the value of the outstanding goods that remains undelivered and the interest accrued thereon pursuant to the Agreement and the Guarantee respectively.

On 5 September 2016, KMKS B had entered into a consent judgment with Kinsteel and Kin Kee in the High Court of Malaya in Kuantan.

The following is a summary of the consent judgment :-

- a) The Defendants are to pay a total sum of RM2,000,000 in 4 instalments vide four (4) post dated cheques, of RM500,000 each.

- b) The Defendants are to deliver a total of 3,050 metric tonne (mt) of steel bars over a period of eleven (11) months to KMKSB, commencing from 05 October 2016 to 05 August 2017.
- c) The balance sum owing to KMKSB which is the difference between RM20,074,567.90 less the value of steel bars delivered to KMKSB at the end of the 11 months delivery as at August 2017 and any monies received under item (a) above (“the Balance Sum”) shall be settled through the following manner :-
- i. That the Balance Sum be paid in a lump sum by 5 September 2017; or
 - ii. That the Balance Sum be paid in three (3) equal monthly instalments commencing from September 2017 to November 2017 at the interest rate calculated at 8% per annum on the Balance Sum.
- d) Each party shall bear their own cost in respect of this matter; and
- e) In the event of any breach of the terms of the Consent Judgment, the total outstanding contained in the Statement of Claim or any part thereof shall be immediately due and payable by the Defendants to KMKSB, and that KMKSB shall be entitled to enforce this Consent Judgment for the said balance outstanding sum together with interest accruing thereon at the rate as stipulated in the Statement of Claim together with legal cost of RM35,000.00 and the Defendants shall not contest the same in whatever situation.

As of to-date, the Defendants had breached their obligations to deliver the steel bars pursuant to item (b) above. Our solicitor had written a letter to the Defendant’s solicitor dated 06 October 2016 to place them on notice of the said breach.

The Board is of the opinion that the claim will not have any material adverse financial or operational impact as the Agreement was carried out on a back-to-back basis with KMKSB’s customer who has paid for the steel bars and agreed not hold KMKSB accountable nor liable for any losses suffered as a consequence of the said summon.

B9 Dividends declared

No interim dividend has been declared for the current quarter ended 30 September 2016.

B10 Earnings per share

	Current quarter ended 30 September 2016 RM ‘000	Preceding year corresponding quarter ended 30 September 2015 RM ‘000	Cumulative 9 months ended 30 September 2016 RM ‘000	Cumulative 9 months ended 30 September 2015 RM ‘000
(Loss)/Earnings	(3,580)	56	(8,749)	3,379
Issued ordinary shares at beginning of period	99,645	99,645	99,645	99,645
Effect of shares issued for the period	-	-	-	-
Weighted average number of shares at end of period	99,645	99,645	99,645	99,645
Basic (loss)/earning per ordinary shares (sen)	(3.59)	0.06	(8.78)	3.39
Diluted earning per ordinary shares (sen)	N/A	N/A	N/A	N/A

B11 Notes to the statement of profit or loss and other comprehensive income

	Current quarter ended 30 September 2016 RM'000	9 months ended 30 September 2016 RM'000
Profit before tax is arrived at after (crediting)/charging :		
Interest income	(170)	(726)
Other income including investment income	416	(409)
Interest expense	391	671
Depreciation and amortization	982	3,477
Provision for and write off of receivables	1,009	1,009
Provision for and write off of inventories	-	-
Gain or loss on disposal of quoted or unquoted investments or properties	-	-
Impairment of assets	-	-
Foreign exchange gain or loss	(41)	(41)
Gain or loss on derivatives	-	-
Exceptional items (with details)	-	-

B12 Fair value information

The carrying amounts of cash and cash equivalents, short term receivables and payables and short term borrowings reasonably approximate their fair values due to the relatively short term nature of these financial instruments. Accordingly, the fair values and fair value hierarchy levels have not been presented for these instruments.

Fair value are categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical financial assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the financial asset or liabilities, either directly or indirectly

Level 3 – Inputs for the financial asset or liabilities that are not based on observable market data

The table below analyses financial instruments not carried at fair value for which fair value is disclosed, together with their carrying amounts shown in the statements of financial position.

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total fair value RM'000	Carrying amount RM'000
30 September 2016					
Financial liabilities					
Finance lease liabilities	-	-	3,180	3,180	2,934
30 June 2016					
Financial liabilities					
Finance lease liabilities	-	-	2,544	2,544	2,313

B13 Realised and Unrealised Profits/(Losses)

The Group retained earnings are analysed as follows: -

	As at 30 September 2016 RM'000	As at 31 December 2015 RM'000
<i>Total retained earnings of the Company and its subsidiaries</i>		
Realised gain	202,432	214,203
Unrealised loss	(214)	(837)
	<hr/> 202,218	<hr/> 213,366
<i>Total share of retained earnings of joint venture</i>		
Realised gain	290	78
Unrealised loss	(22)	(22)
	<hr/> 202,486	<hr/> 213,422
Less: Consolidation adjustments	(44,932)	(45,126)
Total Group retained earnings as per consolidated accounts	<hr/> <hr/> 157,554	<hr/> <hr/> 168,296

The determination of realised and unrealised profits/(losses) is based on the Guidance of Special Matter No.1 *Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements*, issued by Malaysia Institute of Accountants on 20 December 2010.