

KNUSFORD BERHAD (380100-D)

Notes to the interim financial report – 31 March 2017

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

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 the Company plan to apply the abovementioned accounting standards, amendments and interpretations, where applicable:

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

The initial application of the abovementioned accounting standards, amendments or interpretations, 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 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 the Company are currently assessing the financial impact that may arise from the adoption of MFRS 9.

MFRS 15, Revenue from Contract with Customers

MFRS 15 will replace 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 the Company are currently assessing the financial impact that may arise from the adoption of MFRS 15.

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 the Company are 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 31 March 2017.

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 3 months ended 31 March 2017.

A7 Dividends paid

No dividend was paid for the current quarter and 3 months ended 31 March 2017.

A8 Segmental information

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

	3 months ended 31 March 2017 Revenue RM '000	3 months ended 31 March 2016 Revenue RM '000	3 months ended 31 March 2017 Profit before tax RM '000	3 months ended 31 March 2016 Profit before tax RM '000
Trading and services	26,237	28,938	(1,919)	(1,045)
Property development	2,638	-	1,803	(1,380)
Construction	4,237	2,930	(483)	(529)
Investment Property	705	636	111	200
	<hr/>	<hr/>	<hr/>	<hr/>
	33,817	32,504	(488)	(2,754)
Inter-segment eliminations	(1,385)	(188)	(420)	(22)
Unallocated income	-	-	77	470
Unallocated expenses	-	-	(807)	(577)
	<hr/>	<hr/>	<hr/>	<hr/>
	32,432	32,316	(1,638)	(2,883)
	<hr/>	<hr/>	<hr/>	<hr/>

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 3 months ended 31 March 2017.

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 31 March 2017
	RM'000
Guarantees and contingencies relating to	1,652
Borrowings of subsidiaries (unsecured)	=====

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:-

	3 months ended 31 March 2017 RM'000
With companies in which certain Directors of the Company, have interests:	
Aramijaya Sdn Bhd	299
Danga Bay Sdn Bhd	161
Ekovest Construction Sdn Bhd	3,835
Iskandar Waterfront Sdn Bhd	1,153
Rampai Fokus Sdn Bhd	468

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

The Group recorded a revenue of RM32.432 million and loss before tax of RM1.638 million for the 3 months ended 31 March 2017 as compared to revenue of RM32.316 million and loss before tax of RM2.883 million for the preceding year corresponding period.

Performance of the respective operating business segments for the 3 months ended 31 March 2017 as compared to the preceding year corresponding period are analysed as follows :-

Trading and services

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

Property development

The revenue and profit before tax for this division shown an improvement, mainly due to revenue from sale of a completed unit during the period.

Construction

Despite an increase in the revenue, the division recorded a loss before tax mainly due to increase in fixed overheads.

Investment property

Despite an increase in the revenue, profit before tax decreased mainly due to increase in direct overhead cost and depreciation for the newly purchased investment properties.

B2 Comparison with preceding quarter results

For the quarter under review, the Group recorded a loss before taxation of RM1.638 million on a revenue of RM32.432 million as compared to a loss before taxation of RM7.704 million on a revenue of RM35.117 million for the preceding quarter. Despite a decrease in revenue, a smaller loss before tax of the Group was recorded, mainly due to provision of doubtful debt in the preceding 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.

B4 Variance of actual profit from forecast profit / profit guarantee

Not applicable.

B5 Taxation

	Current quarter ended 31 March 2017 RM '000	3 months ended 31 March 2017 RM '000
Income tax		
Current provision	941	941
Deferred tax	(294)	(294)
	647	647
	647	647

B6 Corporate proposals

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

B7 Group borrowings

	As at 31 March 2017 RM '000
Current:	
Bank overdraft	-
Revolving credit	12,600
Finance lease liabilities	1,226
	13,826
	13,826
Non-current:	
Finance lease liabilities	982
	982

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, KMKSB 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.

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 and a notice under Section 218(1)(e) & 218(2)(a) of the Companies Act 1965 had been served to Defendants on 25 November 2016.

A winding up petition had subsequently served to both Companies, Kinsteel and Kin Kee on 22 December 2016. The Notice of Appointment pursuant to Rule 32 Companies (Winding Up) Rules 1972 was fixed on 8 March 2017 at 9.00am. The Hearing of that winding up petition was fixed on 23 March 2017 at 9.00am. Both agendas were held at Kuantan High Court.

Kinsteel had on 03 January 2017 made an Announcement to Bursa Securities Berhad that Kinsteel has been granted an order pursuant to Section 176 (1) and 176 (10) of Companies Act 1965 by the High Court of Kuala Lumpur to restrain all further proceedings, and any actions or proceedings brought by any party including its Scheme Creditors consists of creditors and bankers up to 28 February 2017.

Kinsteel explained that the Order was applied in order to convene a meeting with its creditors pursuant to Section 176(1) of the Act for the purpose of considering and if thought fit, to approve with or without any alteration or modification, a proposed scheme of arrangement and compromise for Kinsteel.

Kinsteel had on 14 March 2017 submitted another Restraining Order’s (RO) application at Kuantan Court and the hearing date has been fixed on 16 March 2017.

KMKSB had on 16 March 2017 filed in a Notice of Application, Affidavit in support together with a certificate of urgency, seeking among others, for an order to intervene and a stay of proceedings.

The Court had approved our application and directed as follows:-

- a) The Plaintiff’s Application for RO will only be heard after disposing the Intervener’s Application;
- b) In relation to the Intervener’s Application:-
 - i. Plaintiff and Defendant to file affidavit in reply by 31 March 2017;
 - ii. Knusford to file affidavit in reply by 06 April 2017;
 - iii. Parties to file and serve a skeletal submission by 13 April 2017. The skeletal submission is to be e-file to Court, hand over a hard copy as well as email to the Secretary of Yang Arif.
 - iv. The hearing date is fixed on 20 April 2017.
- c) The Judge further informed us that KMKSB winding up petition which was fixed on 23 March 2017, is also fixed for Hearing on 20 April 2017 as the learned Judge is not available.

Our solicitor attended the Kuantan High Court hearing held on 20 April 2017 and noted the following:

- a) KINSB had obtained another RO in the Alor Setar Court on 11 April 2017;
- b) As the RO was in place in Alor Setar, the matters in Kuantan had to be stayed until the disposal of the RO in Alor Setar;
- c) The court fixed the 12 July 2017 for the matters in Kuantan to be resumed;
- d) The defendants creditors (Kin Kee Holdings) lawyers asked for the RO in Kuantan to be withdrawn but the court refused; and
- e) The Judge had fixed the matters in Kuantan on 12 July 2017 as the RO in Alor Setar would expire on 10 July 2017.

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 31 March 2017.

B10 Earnings per share

	Current quarter ended 31 March 2017	Preceding year corresponding quarter ended 31 March 2016	Cumulative 3 months ended 31 March 2017	Cumulative 3 months ended 31 March 2016
	RM '000	RM '000	RM '000	RM '000
Loss	(2,285)	(2,834)	(2,285)	(2,834)
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 per ordinary shares (sen)	(2.29)	(2.84)	(2.29)	(2.84)
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 31 March 2017 RM'000	3 months ended 31 March 2017 RM'000
Profit before tax is arrived at after (crediting)/charging :		
Interest income	(77)	(77)
Other income including investment income	(251)	(251)
Interest expense	239	239
Depreciation and amortization	1,060	1,060
Provision for and write off of receivables	-	-
Provision for and write off of inventories	-	-
Provision for doubtful debt written back	-	-
Gain or loss on disposal of quoted or unquoted investments or properties	-	-
Impairment of assets	-	-
Foreign exchange gain or loss	-	-
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
31 March 2017					
Financial liabilities					
Finance lease liabilities	-	-	2,409	2,409	2,207
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31 March 2016					
Financial liabilities					
Finance lease liabilities	-	-	3,007	3,007	2,734
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B13 Realised and Unrealised Profits/(Losses)

The Group retained earnings are analysed as follows:-

	As at 31 March 2017 RM'000	As at 31 December 2016 RM'000
<i>Total retained earnings of the Company and its subsidiaries</i>		
Realised gain	184,085	189,908
Unrealised loss	2,677	2,383
	<hr/> 186,762	<hr/> 192,291
<i>Total share of retained earnings of joint venture</i>		
Realised gain	491	726
Unrealised loss	277	277
	<hr/> 187,530	<hr/> 193,294
Less: Consolidation adjustments	(39,649)	(43,128)
Total Group retained earnings as per consolidated accounts	<hr/> 147,881	<hr/> 150,166

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.