



ECONPILE HOLDINGS BERHAD

(Company No. 1017164-M)

NOTES TO THE INTERIM FINANCIAL STATEMENTS - SECOND QUARTER ENDED 31 DECEMBER 2019

A1. Basis of preparation

The condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the requirements of Paragraph 9.22 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") and the Malaysian Financial Reporting Standards ("MFRS") 134: Interim Financial Reporting. This unaudited interim financial report should be read in conjunction with the Group's most recent audited financial statements for the financial year ended 30 June 2019.

A2. Significant Accounting Policies

The accounting policies and method of computation adopted by the Group in this interim financial report are consistent with those adopted in the annual financial statements for the financial year ended 30 June 2019 except for the following new/revised MFRSs and amendments to MFRSs:

| | | Effective for annual periods beginning on or after |
|----------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------|
| Amendments to MFRS 3 | Business Combinations - Definition of a Business | 1 January 2020 |
| Amendments to MFRS 101 and MFRS 108 | Definition of Material | 1 January 2020 |
| Amendments to MFRS 9, MFRS 139 and MFRS 7 | Interest Rate Benchmark Reform | 1 January 2020 |
| Amendments to MFRS 10 and MFRS 128 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Yet to be determined |

A3. Auditors' Report

The reports of the auditors to the members of Econpile Holdings Berhad and its subsidiary companies on the financial statements for the financial year ended 30 June 2019 were not subject to any qualification and did not include any adverse comments made under subsection (3) of Section 174 of the Companies Act, 1965.

A4. Seasonality or Cyclicity of Interim Operations

The Group's results are not materially affected by any seasonal or cyclical factors.

A5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

There were no items affecting assets, liabilities, equity, net income or cash flows that were unusual in nature, size or incidence during the current quarter and financial period ended 31 December 2019.

A6. Material Effect of Changes in Estimates of Amounts Reported in Prior Interim Periods or Prior Financial Years

There were no changes in estimates of amounts reported in prior interim periods or prior financial years that have a material effect on results for the current period under review.

A7. Debt and Equity Securities

There were no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the current quarter and financial period ended 31 December 2019.

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A8. Dividends Paid

The Company paid the First and Final Dividend of 0.5 sen per ordinary share in respect of financial year ended 30 June 2019, amounting to RM6,687,500.13 on 20 December 2019.

A9. Segmental Reporting

The Group is predominantly involved in general construction and piling works, which is the only reportable segment. Other non-reportable segments comprise investment holding and operations related to rental of investment properties and machinery and related accessories. All the Group's operations are carried out in Malaysia.

A10. Property, Plant and Equipment

The fair value adopted at the date of transition to MFRSs has been brought forward, without amendment from the most recent annual financial statements for the financial year ended 30 June 2019.

A11. Significant Post Balance Sheet Event

There were no material events as at 19 February 2020, being the date not earlier than 7 days from the date of this announcement, that will affect the financial results of the current financial period under review.

A12. Changes in Composition of the Group

There were no changes in the composition of the Group including business combinations, acquisition or disposal of subsidiaries and long term investments, restructuring and discontinuing operations during the current quarter and financial period under review.

A13. Contingent Liabilities and Contingent Assets

There were no material changes in contingent liabilities and contingent assets since the last audited financial statements for the financial year ended 30 June 2019 to 19 February 2020, being a date not earlier than 7 days from the date of this announcement, save for the following:

| | As at 19.02.2020 RM'000 | As at 30.06.2019 RM'000 |
|--------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|
| Contingent Liabilities (Unsecured) | | |
| Group | | |
| - Guarantees given to contract customers in relation to construction contracts | 82,215 | 80,598 |
| Company | | |
| - Guarantees given to banks for facilities granted to a subsidiary | 64,040 | 58,362 |
| - Guarantees given to suppliers for credit terms granted to a subsidiary | 19,214 | 27,464 |

A14. Capital Commitments

| | As at 31.12.2019 RM'000 | As at 30.06.2019 RM'000 |
|-------------------------------|----------------------------------------|----------------------------------------|
| Capital expenditure | | |
| Authorised and contracted for | 10,756 | 12,647 |

A15. Significant Related Party Transactions

There were no significant related party transactions for the current quarter and financial period ended 31 December 2019.

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PART B : EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

B1. Review of the Performance of the Group

| | Individual Period | | | Cummulative Period | | |
|-------------------------------|-------------------------|--------------------------------------------|-----------------------|-----------------------------|-------------------------------------------|-----------------------|
| | Current year quarter | Preceding year corresponding quarter | Changes (Amount/%) | Current financial period | Preceding year corresponding period | Changes (Amount/%) |
| | 31.12.19 RM'000 | 31.12.18 RM'000 | RM'000 / % | 31.12.19 RM'000 | 31.12.18 RM'000 | RM'000 / % |
| Revenue | 137,696 | 148,182 | (10,486) / 7.1% | 273,052 | 348,478 | (75,426) / 21.6% |
| Gross profit | 16,503 | (20,705) | 37,208 / >100% | 33,468 | 4,962 | 28,506 / >100% |
| Profit before taxation | 12,121 | (39,524) | 51,645 / >100% | 24,102 | (19,079) | 43,181 / >100% |
| Profit after taxation | 8,655 | (34,447) | 43,102 / >100% | 17,502 | (19,404) | 30,906 / >100% |

Group's Financial Performance

The Group recorded a revenue of RM273.1 million for the current six (6) months financial period ended 31 December 2019 mainly from the piling and foundation services business segment. Revenue contribution from piling and foundation works from property development projects continue to dominate the Group's revenue, amounting to RM191.2 million or 70.0% (1HFY19 - RM257.9 million or 74.0%) and the remaining revenue derived from piling and foundation works from infrastructure and other segments amounting to RM81.9 million or 30.0% (1HFY19 - RM90.6 million or 26.0%).

The Group recorded a profit before tax of RM24.1 million for the current six (6) months financial period ended 31 December 2019, mainly derived from our piling and foundation services being our main revenue stream. Gross profit margin and profit before tax ("PBT") margin stood at 12.3% (1HFY19 - 1.4%) and 8.8% (1HFY19 - loss margin 5.5%) respectively, for the current financial period ended 31 December 2019. The lower revenue in the current six (6) months period is due mainly to lower billings as certain major property development projects are at advanced completion milestones and also slower-than-expected site activities due to gradual resumption for on-going infrastructure project. The current financial period's gross profit and PBT margins remained within management's expectations in light of the current competitive construction environment and stable raw material prices.

Other Income

Included in Other Income for the current financial period is rental income of equipments and net recovery of bad debts amounting to RM0.9 million as compared to RM1.7 million in the preceding year corresponding quarter.

Project Updates and Order Book

As at 31 December 2019, there are 25 on-going projects at various stages of completion. Order book stood at approximately RM0.8 billion as at 31 December 2019. Concentration of credit risk with respect of trade receivables is limited except for three (3) customers which accounted for 40.3% (including retention sum) of trade receivables as at 31 December 2019.

B2. Comparison with Preceding Quarter's Results

| | Current quarter ended 31.12.19 RM'000 | Preceding quarter ended 30.09.19 RM'000 | Changes (Amount/%) RM'000 / % |
|-------------------------------|------------------------------------------------|--------------------------------------------------|-------------------------------------|
| Revenue | 137,696 | 135,356 | 2,340 / 1.7% |
| Gross profit | 16,503 | 16,965 | (462) / 2.7% |
| Profit before taxation | 12,121 | 11,981 | 140 / 1.2% |
| Profit after taxation | 8,655 | 8,847 | (192) / 2.2% |

In the current second quarter ended 31 December 2019, the Group recorded a slightly higher revenue of RM2.3 million to RM137.7 million from RM135.4 million in the most recent preceding quarter ended 30 September 2019. The piling and foundation works from property development projects and infrastructure projects during the current quarter ended 31 December 2019, amounted to RM96.0 million and RM41.7 million respectively, as compared to RM95.2 million and RM40.2 million respectively, in the preceding quarter ended 30 September 2019. Overall, the revenue for current quarter is dampened by a slower-than-expected infrastructure site activities and progress coupled with certain major property development projects at advanced stage of completion.

The slight increase in the profit before tax for the current quarter ended 31 December 2019 as compared to the preceding quarter ended 30 September 2019 was in line with the marginal increase in current quarter revenue.

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B3. Prospects

Econpile remains optimistic on new job wins both in private-initiated property development projects and also on-going infrastructure projects which are technically challenging in both civil engineering and deep-basement works. On the back of a relatively stable prices of building materials including steel and concrete, Econpile anticipates the construction sector's outlook to remain positive for FY2020.

B4. Profit Forecast or Profit Guarantee

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

B5. Profit Before Tax

Profit for the current quarter and financial period ended 31 December 2019 is stated after charging/(crediting) :-

| | Current quarter ended 31.12.19 RM'000 | Current financial period 31.12.19 RM'000 |
|--------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------|
| Depreciation of investment properties | 22 | 32 |
| Depreciation of properties, plant and equipments | 6,694 | 13,965 |
| Depreciation of right-of-use assets | 15 | 76 |
| Finance income | (186) | (355) |
| Finance expense | 749 | 1,534 |

B6. Taxation

| | Current quarter ended 31.12.19 RM'000 | Current financial period 31.12.19 RM'000 |
|-----------------------|----------------------------------------------------------|-------------------------------------------------------------|
| Current tax expense | | |
| - current period/year | 3,470 | 6,604 |
| - prior year | (4) | (4) |
| Deferred tax expense | - | - |
| | <u>3,466</u> | <u>6,600</u> |

The effective tax rate for the current quarter and financial period ended 31 December 2019 was higher than the statutory tax rate of 24 percent is primarily due to certain expenses not allowable for tax purposes.

B7. Status of Corporate Proposal

There were no pending corporate proposals up to 19 February 2020, being the date not earlier than 7 days from the date of this announcement.

B8. Group Borrowings and Debt Securities

The Group's borrowings as at 31 December 2019 are as follows:

| | Short Term RM'000 | Long Term RM'000 | Total RM'000 |
|---------------------------|------------------------------|-----------------------------|-------------------------|
| <u>Secured</u> | | | |
| Bankers acceptances | 59,349 | - | 59,349 |
| Finance lease liabilities | 5,649 | 298 | 5,947 |
| Term loans | 398 | 3,517 | 3,915 |
| | <u>65,396</u> | <u>3,815</u> | <u>69,211</u> |

All borrowings of the Group are denominated in Ringgit Malaysia.

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B9. Ageing Analysis of Trade Receivables

| | As at 31.12.19 RM'000 | As at 30.06.19 RM'000 |
|------------------------------------------|-----------------------------|-----------------------------|
| Neither past due nor impaired | 185,994 | 194,239 |
| 1 to 60 days past due not impaired | 60,550 | 84,793 |
| 61 to 120 days past due not impaired | 29,011 | 49,276 |
| More than 121 days past due not impaired | 70,658 | 79,793 |
| | 160,219 | 213,862 |
| Impaired | 16,037 | 16,337 |
| Total Trade Receivables | 362,250 | 424,438 |
| Less: Allowance for impairment | (16,037) | (16,337) |
| Net Trade Receivables | 346,213 | 408,101 |
| Other receivables and deposits | 4,999 | 4,560 |
| | <u>351,212</u> | <u>412,661</u> |

B10. Financial Instruments

Save for below, there were no financial instruments with off balance sheet risks as at 19 February 2020, being a date not earlier than 7 days from the date of this announcement.

| | As at 19.02.2020 RM'000 | As at 30.06.2019 RM'000 |
|--------------------------------------------------------------------------------------------------------|-------------------------------|-------------------------------|
| Group | | |
| Performance guarantees given to contract customers and suppliers in relation to construction contracts | 82,215 | 80,598 |

B11. Material Litigation

The Group does not have any material litigation as at 19 February 2020, being a date not earlier than 7 days from the date of this announcement.

B12. Dividend

No dividend was declared for the financial year ending 30 June 2020 in the current quarter and financial period ended 31 December 2019.

B13. Earnings Per Share

The earnings per share for the current quarter and financial period ended 31 December 2019 is computed as follows:-

| | Current quarter ended 31.12.19 | Current financial period ended 31.12.19 |
|------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------|
| Profit attributable to the Owners of the Company for the financial period (RM'000) | 8,655 | 17,502 |
| Weighted average number of ordinary shares in issue ('000) | 1,337,500 | 1,337,500 |
| Basic Earnings Per Share (sen) | 0.65 | 1.31 |

There is no diluted earnings per share as at the end of the quarter and financial period ended 31 December 2019 as it is anti-dilutive.