

EVERSENDAI

EVERSENDAI CORPORATION BERHAD

(Company No. 614060-A)

(Incorporated in Malaysia)

INTERIM FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019

THIRD QUARTER ENDED 30 SEPTEMBER 2019

(Figures are not audited unless otherwise specified)

(In Ringgit Malaysia)

Dated 29 November 2019

EVERSENDAI CORPORATION BERHAD (614060-A)
(Incorporated in Malaysia)

Date: 29 November 2019

**INTERIM FINANCIAL REPORT FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2019
FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019**

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EVERSENDAI CORPORATION BERHAD (614060-A)
(Incorporated in Malaysia)

Financial Year Ending 31 December 2019

Summary of Key Financial Information for the Third Quarter ended 30 September 2019

	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
1 Revenue	413,458	432,206	1,192,972	1,213,254
2 Profit before tax	5,133	16,371	27,041	53,222
3 Profit for the period	3,110	16,848	23,976	52,397
4 Profit attributable to equity holders of the Company	1,473	13,136	20,983	50,503
5 Basic earnings per share (sen)	0.19	1.68	2.69	6.47
6 Proposed/declared dividend per share (sen)	-	-	-	-
			As at 30.9.2019 (RM)	As at 31.12.2018 (RM) (Audited)
7 Net assets per share attributable to the equity holders of the Company			1.19	1.22

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Condensed Consolidated Statement of Comprehensive Income for the Third Quarter ended 30 September 2019

	Note	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
		30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Revenue	6	413,458	432,206	1,192,972	1,213,254
Cost of sales		(366,433)	(382,010)	(1,065,997)	(1,065,717)
Gross profit		47,025	50,196	126,975	147,537
Interest income		2,295	413	4,257	1,749
Other income		5,751	5,133	19,943	17,965
Operating and administrative expenses		(36,418)	(25,038)	(80,482)	(81,566)
Operating profit		18,653	30,704	70,693	85,685
Finance costs		(13,520)	(14,333)	(43,652)	(32,463)
Profit before tax	8	5,133	16,371	27,041	53,222
Income tax (expense)/credit	9	(2,023)	1,801	(3,065)	499
Profit for the period from continuing operations		3,110	18,172	23,976	53,721
Discontinued operations					
Loss for the period from discontinued operations, net of tax	10	-	(1,324)	-	(1,324)
Profit for the period		3,110	16,848	23,976	52,397
Other comprehensive income: Items that may be reclassified subsequently to profit or loss					
- Foreign currency translation		7,365	18,297	4,015	3,247
Total comprehensive income for the period		10,475	35,145	27,991	55,644

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Condensed Consolidated Statement of Comprehensive Income for the Third Quarter ended 30 September 2019 (Cont'd)

	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Note				
Profit for the period attributable to:				
- Equity holders of the Company	1,473	13,136	20,983	50,503
- Non-controlling interests	1,637	3,712	2,993	1,894
	3,110	16,848	23,976	52,397
Total comprehensive income attributable to:				
- Equity holders of the Company	9,516	31,054	26,539	53,541
- Non-controlling interests	959	4,091	1,452	2,103
	10,475	35,145	27,991	55,644
Earnings per share attributable to equity holders of the Company				
Basic/diluted (sen)				
- Continuing operations	0.19	1.75	2.69	6.54
- Discontinued operations	-	(0.07)	-	(0.07)
	0.19	1.68	2.69	6.47
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These condensed consolidated statements of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018, and the accompanying explanatory notes attached to these interim financial statements.

EVERSENDAI CORPORATION BERHAD (614060-A)
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Financial Year Ending 31 December 2019
Condensed Consolidated Statement of Financial Position as at 30 September 2019

	Note	30.9.2019 RM'000	31.12.2018 RM'000 (Audited)
ASSETS			
Non-current Assets			
Property, plant and equipment	12	720,980	721,028
Right-of-use assets		233,483	-
Goodwill	13	11,251	11,251
Deferred tax assets		2,521	2,270
Total Non-current Assets		968,235	734,549
Current Assets			
Inventories	14	312,495	359,935
Amount owing by customers under construction contracts		916,070	757,590
Trade receivables		1,010,832	990,993
Other receivables, refundable deposits and prepaid expenses		226,343	197,902
Investment in securities	16	23	23
Tax recoverable		5,805	5,483
Cash and bank balances	15	152,970	182,876
Total Current Assets		2,624,538	2,494,802
Total Assets		3,592,773	3,229,351
EQUITY AND LIABILITIES			
Current Liabilities			
Trade payables		472,695	347,589
Other payables and accrued expenses		447,154	427,878
Amount owing to customers under construction contracts		176,705	107,203
Amount owing to directors		17,347	9,694
Hire-purchase payables	18	2,019	3,766
Borrowings	18	873,230	979,483
Lease liabilities	18	16,127	-
Tax liabilities		31,934	35,047
Total Current Liabilities		2,037,211	1,910,660

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Condensed Consolidated Statement of Financial Position as at 30 September 2019 (Cont'd)

		30.9.2019 RM'000	31.12.2018 RM'000 (Audited)
EQUITY AND LIABILITIES (Cont'd)	Note		
Non-current Liabilities			
Hire purchase payables	18	2,512	3,187
Borrowings	18	258,493	267,750
Lease liabilities	18	274,155	-
Employees' service benefits		73,287	73,134
Deferred tax liabilities		4,274	4,274
Total Non-current Liabilities		612,721	348,345
Total Liabilities		2,649,932	2,259,005
Net Assets		942,841	970,346
Capital and Reserves			
Issued capital	17	585,308	585,308
Treasury shares	17	(91)	(91)
Capital reserve		187	187
Foreign currency translation reserve		167,892	162,336
Fair value adjustment reserve		30	30
Retained earnings		172,254	206,767
Equity attributable to equity holders of the Company		925,580	954,537
Non-controlling interests		17,261	15,809
Total Equity		942,841	970,346
Total Equity and Liabilities		3,592,773	3,229,351

These condensed consolidated statements of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018, and the accompanying explanatory notes attached to these interim financial statements.

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Condensed Consolidated Statement of Changes in Equity for the Third Quarter ended 30 September 2019 (Cont'd)

Note	Attributable to equity holders of the Company						Total RM'000	Non- controlling interests RM'000	Total equity RM'000
	Issued capital RM'000	Treasury share RM'000	Capital reserve RM'000	Foreign currency translation reserve RM'000	Fair value adjustment reserve RM'000	Retained earnings RM'000			
At 1.1.2019, as previously reported	585,308	(91)	187	162,336	30	206,767	954,537	15,809	970,346
Effect of adoption of MFRS 16	-	-	-	-	-	(55,496)	(55,496)	-	(55,496)
At 1.1.2019, as restated	585,308	(91)	187	162,336	30	151,271	899,041	15,809	914,850
Profit for the period	-	-	-	-	-	20,983	20,983	2,993	23,976
Other comprehensive income/(loss)	-	-	-	5,556	-	-	5,556	(1,541)	4,015
Total comprehensive income	-	-	-	5,556	-	20,983	26,539	1,452	27,991
Dividend paid	-	-	-	-	-	-	-	-	-
At 30.9.2019	585,308	(91)	187	167,892	30	172,254	925,580	17,261	942,841

These condensed consolidated statements of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018, and the accompanying explanatory notes attached to these interim financial statements.

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Condensed Consolidated Statement of Cash Flows for the Third Quarter ended 30 September 2019

	Note	Cumulative Quarter 9 months ended	
		30.9.2019 RM'000	30.9.2018 RM'000
Operating activities			
Profit/(loss) before taxation			
- Continuing operations		27,041	53,222
- Discontinued operations	10	-	(3,429)
Adjustments for:			
Depreciation of property, plant and equipment		44,833	42,555
Depreciation for right-of-use assets		2,071	-
Provision for employees' service benefits		7,728	9,782
Gain on disposal of property, plant and equipment		(443)	(139)
Gain on disposal of a subsidiary		-	(2,166)
Property, plant and equipment written off		-	1
Interest income		(4,257)	(1,749)
(Reversal)/Allowance for doubtful debts		(438)	4,323
Reversal of provision for foreseeable loss		(3,107)	(7,756)
Unrealised foreign exchange loss		1,225	4,590
Finance costs		43,652	32,463
		118,305	131,697
Operating profit before working capital changes			
Working capital changes:			
Net changes in current assets		(179,123)	(230,573)
Net changes in current liabilities		221,677	99,535
Cash generated from operations		160,859	659
Employees' service benefits paid		(7,910)	(3,333)
Taxes paid		(4,587)	(5,809)
		148,362	(8,483)
Net cash flows generated from/(used in) operating activities			
Investing activities			
Purchase of property, plant and equipment		(39,213)	(51,463)
Proceeds from disposal of property, plant and equipment		980	678
Increase in deposits with financial institutions		(183)	(10,742)
Interest received		4,257	1,749
Disposal of a subsidiary		-	(473)
		(34,159)	(60,251)
Net cash flows used in investing activities			

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Condensed Consolidated Statement of Cash Flows for the Third Quarter ended 30 September 2019 (Cont'd)

	Note	Cumulative Quarter 9 months ended	
		30.9.2019 RM'000	30.9.2018 RM'000
Financing activities			
(Repayment)/Drawdown of bank borrowings		(115,510)	29,059
(Repayment)/Drawdown of hire purchase payables		(2,422)	62
Repayment of lease liabilities		(768)	-
Increase in amount owing to directors		7,654	2,105
Dividend paid		-	(4,502)
Finance costs paid		(43,652)	(32,463)
Net cash flows used in financing activities		(154,698)	(5,739)
Net decrease in cash and cash equivalents		(40,495)	(74,473)
Effect of changes in foreign exchange rate		(16,428)	(13,125)
Cash and cash equivalents at beginning of period		75,953	159,672
Cash and cash equivalents at end of period		19,030	72,074
Cash and cash equivalents at end of period comprised of:			
Cash and bank balances		152,970	205,176
Less: Bank overdrafts		(91,120)	(85,498)
Less: Deposits pledged with financial institutions		(42,820)	(47,604)
		19,030	72,074

These condensed consolidated statements of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018, and the accompanying explanatory notes to these interim financial statements.

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Explanatory Notes to the Interim Financial Report for the Third Quarter ended 30 September 2019

A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting

1. Corporate Information

Eversendai Corporation Berhad (“ECB” or “the Company”) is a public limited liability company incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad (“Bursa Malaysia”).

As per the latest audited financial statements for financial year ended 31 December 2018, ECB has met the criteria of the business activities benchmark and financial ratio benchmark set by Shariah Advisory Council (SAC) of the Securities Commission (SC).

These unaudited condensed consolidated interim financial statements and the accompanying explanatory notes were approved by the Board of Directors of the Company on 29 November 2019.

2. Basis of Preparation

These unaudited condensed consolidated interim financial statements for the financial period ended 30 September 2019 have been prepared in accordance with MFRS 134, Interim Financial Reporting and Paragraph 9.22 of Main Market Listing Requirements of Bursa Malaysia Securities Berhad. These unaudited condensed consolidated interim financial statements also comply with International Accounting Standard (IAS) 34 issued by the International Accounting Standards Board (“IASB”).

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 December 2018. The accompanying explanatory notes provide an explanation of events and transactions that are significant for an understanding of the changes in the financial position and performance of ECB and its subsidiaries (“the Group”) since the year ended 31 December 2018.

3. Significant Accounting Policies

The significant accounting policies and methods of computation applied in the interim financial statements are consistent with those adopted in the most recent audited annual statements for the financial year ended 31 December 2018 except where otherwise indicated.

3.1 Adoption of New and Revised Standards

In the current financial period, the Group and the Company have adopted a number of new MFRSs, amendments to MFRS and interpretations issued by the Malaysian Accounting Standards Board (“MASB”) that are mandatorily effective for an accounting periods that begins on or after 1 January 2019 as follows:

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Explanatory Notes to the Interim Financial Report for the Third Quarter ended 30 September 2019

A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

3. Significant Accounting Policies (Cont'd)

3.1 Adoption of New and Revised Standards (Cont'd)

MFRS 16	Leases
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 128	Long- term Interests in Associates and Joint Ventures
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRSs	Annual Improvements to MFRS Standards 2015 – 2017 Cycle
IC Interpretation 23	Uncertainty over Income Tax Treatments

The adoption of these Amendments to MFRSs did not have any material impact on the disclosure or on the amounts recognised in the financial statements of the Group in the current and previous financial years other than disclosed below:

MFRS 16 Leases

MFRS 16 'Leases' supersedes MFRS 117 'Leases' and the related interpretations.

MFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under MFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

3. Significant Accounting Policies (Cont'd)

3.1 Adoption of New and Revised Standards (Cont'd)

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group has elected to apply MFRS 16 using a modified retrospective approach, whereby the cumulative effect of initial application of MFRS 16 is adjusted to the opening balance of retained earnings as at the date of initial application, as shown below:

	RM'000
Retained earnings as at 1 January 2019, as previously reported	206,767
Cumulative effect of initial application of MFRS 16	(55,496)
Retained earnings as at 1 January 2019, as restated	<u>151,271</u>

4. Changes in Estimates

There were no changes in estimates adopted in the preparation of financial statements that have had a material effect in the current and comparative quarter.

5. Changes in Composition of the Group

There is no change in the composition of the Group, including business combination, acquisition and/or disposal of subsidiary and long-term investments, restructuring, and discontinued operations during the current quarter under review.

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Explanatory Notes to the Interim Financial Report for the Third Quarter ended 30 September 2019
A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)
6. Segment Information

	Structural Steel Works				Mechanical Fabrication, Installation & Modularisation	A & E *	Total Continuing Operations	Discontinued Operations	Group
	Middle East	India	Southeast Asia	Others					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
9 months ended 30.9.2019									
Revenue									
- External	719,020	162,315	283,742	1,194	26,701	-	1,192,972	-	1,192,972
- Internal	131,766	-	93,146	2,107	9,565	(236,584)	-	-	-
Total revenue	850,786	162,315	376,888	3,301	36,266	(236,584)	1,192,972	-	1,192,972
Profit/(Loss) before tax	39,680	8,693	24,427	(14,629)	(32,403)	1,273	27,041	-	27,041
9 months ended 30.9.2018									
Revenue									
- External	655,413	150,133	175,065	1,048	231,595	-	1,213,254	4,456	1,217,710
- Internal	165,039	-	93,913	-	-	(283,125)	(24,173)	24,173	-
Total revenue	820,452	150,133	268,978	1,048	231,595	(283,125)	1,189,081	28,629	1,217,710
Profit/(Loss) before tax	44,805	6,324	19,242	(13,187)	2,271	(6,233)	53,222	(3,429)	49,793

* Consolidation adjustment & elimination

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

6. Segment Information (Cont'd)

In the current financial period, the Group achieved revenue of RM1,193.0 million or 1.7% lower as compared to same period in the preceding year, mainly due to the lower revenue contributed by the Mechanical Fabrication, installation & modularisation segment which has decreased significantly by 88.5% and losses incurred due to very low utilisation of the Ras Al Khaimah fabrication yard facility caused by the delay in the timing of new project awards by external parties. This resulted in this segment recording a loss before tax of RM32.4 million for the current financial period.

The Group's core business which is the Structural steel works segment has performed better in the current financial period under review by registering a revenue of RM1,166.3 million which is 18.8% higher as compared to the same period in the preceding year.

The Middle East region continued to contribute the largest share of the Group's Structural steel works revenue at RM719.0 million or 61.7% and profit before tax of RM39.7 million in the current financial period due to the higher construction progress achieved for existing projects and commencement of the construction for new projects secured in FY 2019.

The operations in South East Asia region contributed RM283.7 million or 24.3% to the Group's Structural steel works revenue and profit before tax stood at RM24.4 million in the current financial period mainly due to the commencement of the construction for new project in Singapore in FY 2019 and higher construction progress achieved for the existing projects in Malaysia.

Revenue contributed from India operations was RM162.3 million or 13.9% of the Group's Structural steel works revenue and profit before tax stood at RM8.7 million largely due to the higher construction progress for existing projects and commencement of construction for the new projects secured in FY 2019.

The operations from ECB, United Kingdom and others registered a loss before tax of RM14.6 million mainly caused by the finance costs incurred by ECB for the 9 months period to date in FY 2019.

7. Seasonality of Operations

The business operations of the Group are not materially affected by any seasonal or cyclical factors.

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)
8. Profit Before Tax

Profit before tax is arrived after (crediting)/charging:

	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Interest income	(2,295)	(413)	(4,257)	(1,749)
Sales of scrap	(2,841)	(2,858)	(13,871)	(11,537)
Finance costs	13,520	14,333	43,652	32,463
Depreciation of property, plant and equipment	15,045	14,841	44,833	42,555
Gain on disposal of property, plant and equipment	(5)	-	(443)	(139)
Realised foreign exchange loss/(gain)	962	(2,309)	523	(1,428)
Unrealised foreign exchange loss	1,842	5,578	1,225	4,590
Provision for employees' service benefits expenses	2,608	3,799	7,728	9,782
Reversal for foreseeable loss	(45)	(1,504)	(3,107)	(7,756)
(Reversal)/allowance for doubtful debts	(1,232)	4,945	(438)	4,323

9. Income Tax Expense/(Credit)

	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Current income tax:				
Malaysian income tax	155	27	181	(398)
Foreign income tax	1,868	(2,236)	2,884	(1,144)
	<u>2,023</u>	<u>(2,209)</u>	<u>3,065</u>	<u>(1,542)</u>

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Explanatory Notes to the Interim Financial Report for the Third Quarter ended 30 September 2019

A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

9. Income Tax Expense/(Credit) (Cont'd)

	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30.9.2019 RM'000	30.9.2018 RM'000	30.9.2019 RM'000	30.9.2018 RM'000
Deferred tax:				
Relating to origination and reversal of temporary differences	-	408	-	1,043
Total income tax expense/(credit)	2,023	(1,801)	3,065	(499)
Profit before tax	5,133	16,371	27,041	53,222
Effective tax rate	39.4%	(11.0%)	11.3%	(0.9%)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%) on the estimated taxable profit for the period. Taxation of other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The Group's effective tax rate for the 9 months period ended 30 September 2019 is lower than the 24% statutory tax rate in Malaysian mainly due to significant portion of the Group's pre-tax profit were generated in the Middle East region where business profits in these jurisdictions are not subject to income tax.

10. Discontinued Operations

On 3 May 2018, the Group had entered into a share sale agreement for the disposal of 84,000 ordinary shares in its subsidiary, Perisai Kuasa Sdn Bhd ("PKSB"), which represents 60% of the issued and paid up share capital in PKSB. On 11 July 2018, the Company announced that the disposal has been completed. Accordingly, PKSB is no longer a subsidiary of the Company.

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Explanatory Notes to the Interim Financial Report for the Third Quarter ended 30 September 2019
A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)
11. Earnings per Share
Basic/diluted

Basic and diluted earnings per share for the current quarter under review are calculated by dividing the net profit for the period attributable to equity holders of the Company by the weighted average number of ordinary shares issued (excluding treasury shares) during the financial period.

	Third Quarter 3 months ended		Cumulative Quarter 9 months ended	
	30.9.2019	30.9.2018	30.9.2019	30.9.2018
Profit for the period attributable to equity holders of the Company (RM'000)				
- From continuing operations	1,473	13,685	20,983	51,052
- From discontinued operations	-	(549)	-	(549)
	<u>1,473</u>	<u>13,136</u>	<u>20,983</u>	<u>50,503</u>
Number of ordinary shares in issue ('000)	780,999	780,999	780,999	780,999
Basic/diluted earnings/(loss) per share (sen)				
- From continuing operations	0.19	1.75	2.69	6.54
- From discontinued operations	-	(0.07)	-	(0.07)
	<u>0.19</u>	<u>1.68</u>	<u>2.69</u>	<u>6.47</u>

12. Property, Plant and Equipment

During the current financial period under review, the Group disposed-off assets with carrying value of RM537,000, resulting in a gain of RM443,000, recognised and included in other income in the condensed consolidated statement of comprehensive income.

As at the end of the current quarter under review, the Group does not have any material commitment for the acquisition or disposal of property, plant and equipment.

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

13. Goodwill

Goodwill is tested for impairment annually (31 December) and when circumstances indicate that the carrying value may be impaired.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by directors for the next five years. The key assumptions for the value-in-use calculations are as follows:

	Growth Rate	Discount Rate Applied	Growth Rate	Discount Rate Applied
Cash-generating units ("CGUs")	2019	2019	2018	2018
Eversendai Engineering LLC Dubai	1%	7%	1%	7%
Eversendai Engineering Sdn Bhd	1%	9%	1%	9%
Eversendai Constructions (M) Sdn Bhd	1%	9%	1%	9%
Eversendai S-Con Engineering Co. Ltd	1%	10%	1%	10%

- a) **Budgeted gross margin**
The basis used to determine the budgeted gross margin is the average gross margin achieved in the year immediately before the budgeted year increase for expected efficiency improvements and after considering current economic conditions.
- b) **Discount rate**
The discount rates used are pre-tax and reflect the weighted average cost of capital of the respective CGUs.
- c) **Growth rate**
The growth rates are based on projects tendered and awarded and do not exceed the long-term average growth rate for the industries relevant to the CGUs.

The Group considers the relationship between its budgeted gross margins, discount rate, growth rate and the carrying value of the goodwill, amongst other factors when reviewing indicators of impairment. As of 30 September 2019, the Group believes that any reasonably possible change in the above key assumptions applied are not likely to materially cause the recoverable amounts to be lower than their carrying amounts.

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

14. Inventories

In the nature of the Group's businesses, its procurement policies and rate of inventories turnover, the Group is not exposed to the risk of old or obsolete inventories. Accordingly, no allowance has been made for impairment. Any shortfall which may arise on subsequent realization will be recognized in the profit and loss as and when incurred.

Certain inventories of the Group are pledged against bank borrowings.

15. Cash and Cash Equivalents

Cash and cash equivalents comprised the following amounts:

	30.9.2019	31.12.2018
	RM'000	RM'000
		(Audited)
Cash and bank balances	110,150	140,239
Deposits with financial institutions	42,820	42,637
Total cash and bank balances	152,970	182,876
Less:		
Bank overdrafts	(91,120)	(64,286)
Deposits pledged with financial institutions	(42,820)	(42,637)
Total cash and cash equivalents	19,030	75,953

16. Fair Value Hierarchy

The Group uses the following hierarchy for determining the fair value of all financial instruments carried at fair value:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 : inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 : unobservable inputs for the asset or liability.

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

16. Fair Value Hierarchy (Cont'd)

As at the end of the current quarters under review, the Group held the following financial assets that are measured at fair value:

	Level 1 RM'000
At 30.9.2019	
Current asset	
Investment in securities	23
Total	23
At 31.12.2018 (Audited)	
Current asset	
Investment in securities	23
Total	23

Investment in securities are investments in unit trust fund. The fair value of this class of financial asset is measured based on the quoted market price, with the fair value gains or losses through profit or loss.

The Group does not have any financial instruments measured at fair value using significant unobservable inputs. There were no transfers between any levels of the fair value hierarchy took place during the current quarter and comparative period. The Group also does not hold any credit enhancement or collateral to mitigate credit risk and therefore, the carrying amount of financial assets represents the potential credit risk.

17. Issued Capital and Treasury Shares

There was no share buy-back during the current quarter under review.

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

18. Group Borrowings and Debt Securities

	30.9.2019 RM'000	31.12.2018 RM'000 (Audited)
Current:		
Hire purchase payables	2,019	3,766
Bank overdrafts	91,120	64,286
Bills payable	310,172	420,248
Term loans	471,938	494,949
	<u>873,230</u>	<u>979,483</u>
Lease liabilities	16,127	-
Total Current Borrowings	<u>891,376</u>	<u>983,249</u>
Non-current:		
Hire purchase payables	2,512	3,187
Term loans	258,493	267,750
Lease liabilities	274,155	-
Total Non-current Borrowings	<u>535,160</u>	<u>270,937</u>
Total Group Borrowings and Debt Securities	<u>1,426,536</u>	<u>1,254,186</u>

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

18. Group Borrowings and Debt Securities (Cont'd)

Included in the Group's borrowings as of 30 September 2019 are bank borrowings denominated in foreign currencies as follows:

	Value in foreign currency 30.9.2019 '000	Equivalents in value of Malaysian currency 30.9.2019 RM'000
United Arab Emirates Dirham	466,272	531,607
Qatari Riyal	36,708	42,213
Indian Rupees	1,153,566	68,528
Thai Baht	44,237	6,056
Singapore Dollar	1,415	4,287
United States Dollar	102,000	427,166

19. Dividend Paid

No payment of dividend by the Company during the current quarter under review.

20. Commitments and Contingencies

a) Capital expenditure commitments

	30.9.2019 RM'000	30.9.2018 RM'000
Contracted but not provided for:		
Factory building and labour accommodation	18,470	11,943
Computer systems and others	570	7
Plant and machineries	1,140	4,544
	20,180	16,494
Approved but not contracted for:		
Factory building and labour accommodation	-	18,028
Computer systems and others	-	563
Plant and machineries	-	1,127
	-	19,718

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B. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

20. Commitments and Contingencies (Cont'd)

b) Contingencies

The Group does not have any pending litigation except as disclosed in Note 28 of this interim financial report.

Corporate guarantees

At the end of the current quarter under review, the Company has provided corporate guarantees for banking facilities to the subsidiaries, which will not result in potential financial liability to the Group, as follows:

	30.9.2019	30.9.2018
	RM'000	RM'000
Eversendai Engineering LLC Dubai	3,889,956	3,816,856
Eversendai Offshore RMC FZE	680,628	672,654
Eversendai Engineering Qatar WLL	749,722	705,636
Eversendai Construction Private Limited	324,294	313,876
Eversendai Engineering Sdn Bhd	272,320	245,583
Eversendai Engineering Pte Ltd	182,320	39,891
	<u>6,099,240</u>	<u>5,794,496</u>

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A. Explanatory Notes Pursuant to Malaysian Financial Reporting Standard (MFRS) 134, Interim Financial Reporting (Cont'd)

21. Related Party Transactions

Related parties include key management personnel of the Group and companies in which they are principal owners. The following table provides information on the transactions which have been entered into with related parties during the cumulative quarters under review:

	Cumulative quarter 9 months ended	
	30.9.2019 RM'000	30.9.2018 RM'000
Transactions with certain directors and key management personnel of the Group:		
Rental of staff accommodation and office building from a director	991	1,119
Transactions with other related company:		
Provision of services for engineering and fabrication by a subsidiary to a company where the Company deemed related to one of the director by virtue of his direct interest in the ultimate holding Company of the Group	3,081	40,398

22. Events After the Reporting Period

There were no material events subsequent to the end of the current quarter under review that have not been reflected in this interim financial report.

On 1 November 2019, the Company has accepted a 5-year syndicated term loan facility of USD115 million from MBSB Bank Berhad, Export-Import Bank of Malaysia Berhad, United Overseas Bank (Malaysia) Berhad and Commercial Bank International PSC (the "Facility").

The Facility will be used for redemption of the outstanding sum for the 5-year syndicated term loan facility of USD102 million from First Abu Dhabi Bank PJSC, Export-Import Bank of Malaysia Berhad and Commercial Bank International PSC. The remaining USD13 million shall be used for working capital of the Group.

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B. Explanatory Notes Pursuant to Chapter 9, Appendix 9B, Part A of the Main Market Listing Requirements of Bursa Malaysia

23. Review of Group with Comparison to Last Year's Corresponding Periods

The Group achieved total revenue of RM1,193.0 million for the 9 months period for FY 2019 or 1.7% lower as compared to previous year corresponding period of RM1,213.3 million.

The businesses in the Middle East region contributed 60.3% out of the total revenue of RM1,193.0 million, followed by the operations in Southeast Asia, India and the Mechanical fabrication, installation & modularisation which delivered 23.8% , 13.6% and 2.2% respectively and 0.1% was contributed by the operations in United Kingdom and others. The lower revenue achieved in the current financial period was principally due to the under-utilisation of the Ras Al Khaimah fabrication yard facility because of the delay in timing of award of the projects in FY 2019.

The Group has registered PATAMI of RM21.0 million in the first 9 months of the year, 58.5% lower than PATAMI of RM50.5 million reported in preceding year's corresponding period, primarily due to the loss before tax incurred by the Mechanical fabrication, installation & modularisation segment in the current financial period of RM32.4 million caused by the reasons mentioned in the above paragraph. Without the losses from the Mechanical fabrication, installation & modularisation segment, the Group's core business which is the Structural steel works segment had delivered profit before tax of RM59.4 million, which was 16.7% higher than the profit before tax of RM50.9 million achieved for this segment in preceding year's corresponding period.

The performance from Structural steel works segment continued to improve in the current financial period by contributing 97.8% or RM1,166.3 million of the Group's total revenue of RM1,193.0 million as compared to 80.9% or RM981.7 million in the preceding year's corresponding period.

24. Material Change in Profit Before Taxation in Current Quarter as Compared to Profit in Preceding Year's Corresponding Quarter

The Group recorded a lower profit before tax of RM5.1 million during the current quarter when compared to the preceding year's corresponding quarter's profit before tax of RM16.4 million. This was caused by higher operating and administrative expenses of RM36.4 million as compared to RM25.0 million for the preceding year's corresponding quarter.

The significant increase in the operating and administrative expenses for this current quarter was partly due to higher depreciation expenses and other fixed costs expensed to income statement by the Mechanical fabrication, installation & modularisation segment resulted from the low utilisation of the Ras Al Khaimah fabrication yard facility and deferment of the timing of award for new projects by external parties.

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Explanatory Notes to the Interim Financial Report for the Third Quarter ended 30 September 2019

B. Explanatory Notes Pursuant to Chapter 9, Appendix 9B, Part A of the Main Market Listing Requirements of Bursa Malaysia (Cont'd)

25. Prospects of the Group

As at the current reporting period, the Group's order book stood at approximately RM2.2 billion. Approximately 36.4% of the order book came from the Group's traditional stronghold in the Middle East region, 35.4% from India, 19.8% from Southeast Asia region and the balance 8.4% from Mechanical fabrication, installation & modularisation segment.

The Group has further diversified its business with a project secured in FY 2019 for the European Renewables Offshore Wind sector which is a breakthrough for the Group.

26. Profit Forecast or Profit Guarantee

There was no profit forecast or profit guarantee issued by the Company or the Group for the current quarter under review.

27. Corporate Proposals

There is no corporate proposal announced but not completed as at 22 November 2019, being a date not earlier than seven days from the date of issuance of this interim financial report.

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B. Explanatory Notes Pursuant to Chapter 9, Appendix 9B, Part A of the Main Market Listing Requirements of Bursa Malaysia (Cont'd)

28. Changes in Material Litigation

Linsun Engineering Sdn Bhd against Eversendai Engineering Sdn Bhd (“EESB”)

On 14 November 2014, a supplier known as Linsun Engineering Sdn Bhd (“the Plaintiff”) has served a Writ of Summons against EESB, for certain supply of manpower for scaffolding erection and dismantling works at the project known as Manjung 4 Power Plant for an alleged claim of RM8,222,465 plus interest which is disputed by the company.

The matter has been fixed for further trials on 21 January 2020, 4 February 2020, 23 to 24 March 2020, 26 March 2020, 20 to 21 April 2020, 8 to 9 June 2020 and 22 to 25 June 2020.

The Management is of the view that it has a very good defence against the above claim.

29. Dividend Payable

No interim dividend has been declared for the current financial period and 9 months period ended 30 September 2019.

30. Auditors’ Report on Preceding Annual Financial Statements

The auditors’ report on the financial statements for the year ended 31 December 2018 was not qualified.

By order of the Board of Directors

Tan Sri Dato’ A K Nathan Elumalay
Executive Chairman and Group Managing Director
Eversendai Corporation Berhad

29 November 2019