

REGAL International Group Ltd.

(Company Registration No. 200508585R)

- Unaudited Financial Statements and Related Announcement for the first quarter ended 31 March 2017

Unaudited Financial Statements and Related Announcement for the First Quarter Ended 31 March 2017

PART I – INFORMATION REQUIRED FOR QUARTERLY (Q1, Q2 & Q3), HALF-YEAR AND FULL YEAR ANNOUNCEMENTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income, for the group, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Statement of Comprehensive Income	Group		Change %
	1Q2017 RM'000	1Q2016 RM'000	
Continuing Operations			
Revenue	40,372	57,496	-30%
Cost of sales	(27,672)	(48,641)	-43%
Gross profit	12,700	8,855	43%
Interest income	16	3	433%
Other gains	118	646	-82%
Marketing and distribution costs	(414)	(99)	318%
Administrative expenses	(7,231)	(7,122)	2%
Other losses	(289)	(1)	N.M.
Finance costs	(882)	(630)	40%
Share of profit from equity-accounted associates	157	566	-72%
Profit before tax	4,175	2,218	88%
Income tax expenses	(1,510)	(451)	235%
Profit from continuing operations, net of tax	2,665	1,767	51%
Discontinued Operations			
Loss from discontinued operations, net of tax	-	(1,506)	N.M.
Profit for the period, net of tax	2,665	261	921%
Other comprehensive income (loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations, net of tax	495	(2,205)	N.M.
Other comprehensive income (loss) for the period, net of tax	495	(2,205)	N.M.
Total comprehensive income (loss) for the period	3,160	(1,944)	N.M.
Profit attributable to owners of the parent, net of tax	1,772	51	3375%
Profit attributable to non-controlling interest, net of tax	893	210	325%
Profit, net of tax	2,665	261	921%
Total comprehensive income (loss) attributable to owners of the parent	2,275	(2,154)	N.M.
Total comprehensive income attributable to non-controlling interests	885	210	321%
Total comprehensive income (loss) for the period	3,160	(1,944)	N.M.

N.M. – Not meaningful

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1(a)(ii) Notes to statement of comprehensive income

Profit (Loss) before tax is stated after (charging)/crediting:

	Group		
	1Q2017 RM'000	1Q2016 RM'000	Change %
<u>Continuing Operations</u>			
Depreciation of property, plant and equipment	(1,027)	(845)	21.5%
Interest income	16	3	433.3%
Interest expense	(882)	(630)	40.0%
Foreign exchange adjustment net (loss) gain	(291)	570	N.M.

N.M. - Not meaningful

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1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

Statements of Financial Position	Group		Company	
	As at 31.03.2017	As at 31.12.2016	As at 31.03.2017	As at 31.12.2016
	RM'000	RM'000	RM'000	RM'000
ASSETS				
<u>Non-current assets</u>				
Property, plant and equipment	11,858	12,439	60	70
Available-for-sale financial assets	1,584	1,551	1,584	1,551
Investment in subsidiaries	-	-	401,886	393,597
Investment in associates	4,875	4,718	-	-
Deferred tax assets	1,070	1,070	-	-
Investment properties	5,666	5,666	-	-
Other assets	2,960	2,970	-	-
Total non-current assets	28,013	28,414	403,530	395,218
<u>Current assets</u>				
Development properties	85,019	107,589	-	-
Inventories	50,695	31,197	-	-
Trade and other receivables	99,048	66,612	30,057	29,437
Other assets	4,382	1,968	206	154
Cash and cash equivalents	5,752	15,170	597	1,830
Total current assets	244,896	222,536	30,860	31,421
Total assets	272,909	250,950	434,390	426,639
EQUITY AND LIABILITIES				
<u>Equity attributable to owners of the parent</u>				
Share capital	133,052	133,052	369,551	369,551
Accumulated losses	(86,061)	(87,833)	(19,610)	(17,986)
Share option reserve	3,322	3,193	3,322	3,193
Foreign currency translation reserve	3,360	2,857	79,212	70,268
Merger reserve	1,563	1,563	-	-
Equity, attributable to owners of the parent	55,236	52,832	432,475	425,026
Non-controlling interests	1,212	367	-	-
Total equity	56,448	53,199	432,475	425,026
<u>Non-current liabilities</u>				
Deferred tax liabilities	686	686	-	-
Other financial liabilities	49,180	34,507	-	-
Total non-current liabilities	49,866	35,193	-	-
<u>Current liabilities</u>				
Income tax payable	16,101	16,319	-	-
Trade and other payables	107,797	97,734	1,915	1,613
Other liabilities	3,518	2,661	-	-
Progress billings	15,449	21,575	-	-
Other financial liabilities	23,730	24,269	-	-
Total current liabilities	166,595	162,558	1,915	1,613
Total liabilities	216,461	197,751	1,915	1,613
Total equity and liabilities	272,909	250,950	434,390	426,639

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1(b)(ii) In relation to the aggregate amount of the group's borrowings and debt securities, specify the following as at the end of the current financial period reported on with comparative figures as at the end of the immediately preceding financial year.

BORROWINGS AND DEBT SECURITIES	Group	
	As at 31.03.2017	As at 31.12.2016
	RM'000	RM'000
<u>Amount repayable in one year or less, or on demand</u>		
- secured	23,730	24,269
	23,730	24,269
<u>Amount repayable after one year</u>		
- secured	49,180	34,507
	49,180	34,507

Details of any collateral:

The banking facilities of the Group comprised of bank overdraft, term loans, finance leases and trade lines.

The bank overdrafts are covered by: -

1. Joint and several guarantees of certain directors of the Company;
2. Assignment over the rights, title and interest to the properties held for sale;
3. Corporate guarantees provided by certain subsidiaries of the Company;
4. First party charge and first/second legal charges on some of the subsidiaries' projects land and properties held for sale; and
5. Legal charge or deed of assignment and power of attorney over properties held for sale.

The term loans are covered by the following:-

1. Upfront fixed deposit of RM270,000 and interest;
2. Joint and several guarantee by certain directors of the Company;
3. Yearly fixed deposits of RM30,000 to commence 6 months after initial release of facilities;
4. Joint and several guarantee by ex-director of one of the subsidiaries of the Company;
5. Corporate guarantees provided by certain subsidiaries of the Company;
6. First party charge and first/second legal charges on some of the subsidiaries' projects land and properties held for sale and leasehold property;
7. Assignment over the rights, titles and interest to the properties held for sale;
8. Guarantee by Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP) under the Working Capital Guarantee Scheme (WCGS).

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1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

Consolidated Statement of Cash Flows	Group	
	1Q2017 RM'000	1Q2016 RM'000
<u>Cash flows from operating activities</u>		
Profit before tax from continuing operations	4,175	2,218
Loss before tax from discontinued operations	-	(1,886)
Profit before tax	4,175	332
Adjustments for:		
Depreciation of property, plant and equipment	1,027	1,372
Interest expense	882	630
Interest income	(16)	(9)
Gain on disposal of plant and equipment	-	(22)
Dividends from associates	-	3,469
Share-based payments	129	474
Share of profit from equity-accounted associates	(157)	(566)
Operating cash flows before changes in working capital	6,040	5,680
Development properties	22,570	7,323
Inventories	(19,498)	(4,570)
Trade and other receivables	(31,835)	(24,346)
Other assets, current	(2,411)	1,871
Trade and other payables	8,969	18,926
Progress billings	(6,126)	(13,893)
Other liabilities	856	81
Net cash flows used in operations before tax	(21,435)	(8,928)
Income paid	(1,728)	(614)
Net cash flows used in operating activities	(23,163)	(9,542)
<u>Cash flows from investing activities</u>		
Purchase of property, plant and equipment	(211)	(663)
Proceeds from sale of property, plant and equipment	-	216
Other assets, non-current	10	(195)
Interest received	16	9
Net cash flows used in investing activities	(185)	(633)
<u>Cash flows from financing activities</u>		
Other payables/receivables - directors	169	860
Other payables/receivables - shareholders	66	28
Other payables/receivables - associates	824	-
Proceeds from borrowings	15,233	5,252
Repayment of borrowings	(1,932)	-
Cash restricted in use	200	(52)
Dividend paid	(40)	-
Interest paid	(882)	(630)
Net cash flows from financing activities	13,638	5,458
Net decrease in cash and cash equivalents	(9,710)	(4,717)
Cash and cash equivalents, statement of cash flows, beginning balance	6,033	13,363
Effect of exchange rate changes on cash and cash equivalents	(108)	(606)
Cash and cash equivalents, statement of cash flows, ending balance	(3,785)	8,040
Cash and cash equivalents comprised of :		
Cash and bank balances	5,752	17,347
Bank overdraft	(8,290)	(6,986)
Cash restricted in use	(1,247)	(2,321)
	(3,785)	8,040

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1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Note : The Foreign Exchange Reserve and Merger Reserve are not available for distribution as cash dividends.

Statements of Changes in Equity	(Accumulated losses)							
	Total equity	Attributable to parent	Share capital	Retained earnings	Foreign exchange reserve	Merger reserve	Share option reserve	Non-controlling interests
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group								
Current period:								
Opening balance at 1 January 2017	53,199	52,832	133,052	(87,833)	2,857	1,563	3,193	367
Movement in equity:								
Total comprehensive (loss) income for the period	3,160	2,275	-	1,772	503	-	-	885
Dividends	(40)	-	-	-	-	-	-	(40)
Share-based payments	129	129	-	-	-	-	129	-
Closing balance at 31 March 2017	56,448	55,236	133,052	(86,061)	3,360	1,563	3,322	1,212
Previous period:								
Opening balance at 1 January 2016	80,914	80,549	133,052	(66,881)	9,569	3,178	1,631	365
Movement in equity:								
Total comprehensive (loss) income for the period	(1,944)	(2,154)	-	51	(2,205)	-	-	210
Share-based payments	474	474	-	-	-	-	474	-
Closing balance at 31 March 2016	79,444	78,869	133,052	(66,830)	7,364	3,178	2,105	575

	Total equity	Share capital	Accumulated losses	Foreign exchange reserve	Share option reserve
	RM'000	RM'000	RM'000	RM'000	RM'000
Company					
Current period:					
Opening balance at 1 January 2017	425,026	369,551	(17,986)	70,268	3,193
Movement in equity:					
Total comprehensive loss for the period	(1,624)	-	(1,624)	-	-
Foreign currency translation reserve	8,942	-	-	8,942	-
Share-based payments	129	-	-	-	129
Closing balance at 31 March 2017	432,473	369,551	(19,610)	79,210	3,322
Previous period:					
Opening balance at 1 January 2016	394,524	369,551	(38,750)	62,092	1,631
Movement in equity:					
Total comprehensive loss for the period	(2,495)	-	(2,244)	(251)	-
Share-based payments	474	-	-	-	474
Closing balance at 31 March 2016	392,503	369,551	(40,994)	61,841	2,105

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1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

There have been no changes in the Company's share capital and treasury shares since the end of the previous period reported on.

As at 31 March 2017 and 31 March 2016, the Company did not hold any treasury shares.

During the financial period, there have been no bonus or other issues of shares.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	As at 31.03.2017	As at 31.03.2016
Total number of issued shares excluding treasury shares	<u>200,114,059</u>	<u>200,114,059</u>

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

None.

1(d)(v) A statement showing all sales, transfers, disposal, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

None.

2 Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by our auditors.

3 Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4 Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period as compared to its audited financial statements as at 31 December 2016, except for the adoption of Finance Reporting Standard ("FRS") which are relevant to the Group's operations and took effect from 1 January 2017.

5 If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Please refer to item 4 above. The adoption of the new and revised FRSs had no material effect on the Group's accounting policies and had no significant impact on the Group's financial statements.

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6 Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

(a) Based on the weighted average number of ordinary shares on issue;

EARNINGS PER SHARE (EPS)	Group	
	1QFY2017	1QFY2016
Profit attributable to the owners of the parent during the financial period (RM'000)		
From continuing operations (RM'000)	1,772	1,767
From discontinued operations (RM'000)	-	(1,506)
Weighted average number of ordinary shares on issue	200,114,059	200,114,059
Basic earnings per share for profit attributable to equity holders of the parent during the financial period:		
From continuing operations (sens)	0.89	0.88
From discontinued operations (sens)	-	(0.75)

(b) On a fully diluted basis (detailing any adjustments made to the earnings).

Diluted earnings per share is not presented as there is no potential dilutive ordinary share existing during the relevant financial periods presented.

7 Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the: -

(a) current financial period reported on; and

(b) immediately preceding financial year.

NET ASSET VALUE	Group		Company	
	As at 31.03.2017	As at 31.12.2016	As at 31.03.2017	As at 31.12.2016
Net asset value (RM'000)	55,236	52,832	432,475	425,026
Number of issued shares excluding treasury shares	200,114,059	200,114,059	200,114,059	200,114,059
Net asset value per ordinary share (sens)	27.60	26.40	216.11	212.39

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- 8 A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following: -
- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
 - (b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

Statement of Comprehensive Income

On 2 June 2016, the Company announced the decision of its board of directors to dispose of one of its wholly-owned subsidiaries, Hisaka International Holdings Pte Ltd ("HIHPL"). HIHPL is the holding company of the Group's precision business division. The proposed disposal of the precision business, which has been underperforming, is consistent with the Group's strategy to re-align its corporate strategy and focus on its core property development business. The proposed disposal was completed on 16 December 2016. The result of the precision business division was presented separately on the income statement under the "Discontinued Operations".

The Group's "Continuing Operations" mainly include its property business division and the holding company.

Revenue from the property business slightly decreased by RM17.1 million or 30% from RM57.5 million in 1Q2016 to RM40.4 million in 1Q2017. This was mainly due to decrease in revenue from construction projects from RM15.9 million in 1Q2016 to RM3.5 million in 1Q2017 and decrease in sale of development properties from RM38.5 million in 1Q2016 to RM34.2 million in 1Q2017 arising from fewer completion of projects and units sold in 1Q2017 as compared to 1Q2016.

The property business recorded gross profit margins of 31.5% in 1Q2017 compared to 15.4% in 1Q2016. The higher gross profit margin was due to the better profit yielding sales from development projects.

The fluctuations in other gains and other losses were mainly due to foreign currencies exchange differences.

The increase in marketing and distribution costs was attributable to more headcounts were hired and the increased marketing and promotional activities to drive sales.

Administrative expenses in 1Q2017 and 1Q2016 were relatively consistent.

Finance costs increased from RM0.6 million in 1Q2016 to RM0.9 million due to increase in the borrowings.

The share of results from equity-accounted associates was contributed by the Group's associate, Tiya Development Sdn Bhd. The decrease in share of profit from the associate was mainly due to fewer completed units sold in 1Q2017 compared to 1Q2016.

Income tax expenses increased mainly due to the increase of taxable profits.

Statement of Financial Position

Group

There were no significant fluctuations in the non-current assets of the Group.

Current assets of the Group increased by RM22.4 million from RM222.5 million as at FY2016 to RM244.9 million as at 1Q2017. The increase was due to an increase in inventories by RM31.3 million and an increase in trade and other receivables by RM32.4 million owing largely to the increased property development activities. The increase was partially offset by a decrease in development properties of RM22.6 million and cash and cash equivalents of RM9.4 million.

Non-current liabilities of the Group increased by RM14.7 million from RM35.2 million as at FY2016 to RM49.9 million as at 1Q2017 was due to the increase in other financial liabilities resulting from the issuance of redeemable preference shares.

Current liabilities of the Group increased by RM4.0 million from RM162.6 million as at FY2016 to RM166.6 million as at 1Q2017. The increase was mainly due to an increase in trade and other payables of RM10.1 million, partially offset by a decrease in progress billings of RM6.1 million on the development projects.

Overall, the Group's net tangible asset stood at RM56.4 million as at 1Q2017 compared to RM53.2 million as at FY2016.

Company

The increase in investment in subsidiaries was mainly due to the translation exchange difference on the investment.

Statement of Cash flows

The Group used cash of RM23.1 million in operating activities in 1Q2017 mainly due to increase in receivables and inventories as there are increased property development activities. The increase was partially offset by the decrease in development properties.

Net cash of RM13.6 million was generated from financing activities in 1Q2017 mainly due to proceeds from the redeemable preference shares.

- 9 [Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.](#)

Not applicable. No forecast or prospect statement have been previously disclosed.

- 10 [A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.](#)

Following the disposal of its legacy precision business in 2016, the Group will be adopting the following strategies to realign and focus on its core property development business within the next 12 months:

a. Stabilising Property Market - Aggressive Pricing and Marketing Efforts

Generally, the property market in Sarawak is holding up steadily despite challenging economic environment. Genuine buyers, especially those who are purchasing a house or residential units will continue to support the overall property market. Demand for affordable housing should remain, given a reasonable location and decent pricing.

Given the market forces in view, the Group will step up its marketing efforts and adopt pricing strategies to motivate sales across various target segments. With the opening of its exclusive sales gallery in November 2016, Regal Galleria, the Group is set to position itself as a quality one-stop builder-developer offering comprehensive range of residential, commercial and retail units.

b. Improved Cost Efficiency to Maximise Profits

Improving cost efficiency and hence increasing profit margins is the pillar corporate strategy adopted for the new financial year. Conscious efforts are put forth to tighten and monitor cost controls across various phases of the development projects, in order to maximise profit generation.

c. Geographical Expansion

Besides Kuching, the Group has continued its residential developments in Seremban (West Malaysia). It has also commenced its commercial and residential project developments in Bintulu.

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11 Dividend

(a) Current Financial Period Reported On

Any dividend recommended for the current financial period reported on?

Nil

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend recommended for the corresponding period of the immediately preceding financial year?

Nil

(c) Date Payable

Not applicable.

(d) Books Closure Date

Not applicable.

12 If no dividend has been declared/recommended, a statement to that effect.

Not applicable.

13 If the Group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not obtained a general mandate from shareholders for Interested Person Transactions.

14 Negative confirmation pursuant to Rule 705(5).

The Board of Directors of the Company confirms to the best of its knowledge that nothing has come to its attention which may render the first quarter results ended 31 March 2017 to be false or misleading in any material aspect.

15 Undertaking Confirmation Statement from all its directors and executive officers under Rule 720(1)

The Company has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1) of the Listing Manual.

BY ORDER OF THE BOARD

Su Chung Jye
Chairman and Chief Executive Officer

Wong Pak Kiong
Executive Director

12 May 2017