

PENTAMASTER CORPORATION BERHAD (572307-U) ("PCB" or "Company")
QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
 COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019**

	Individual Quarter 3 Months Ended		Cumulative Year Financial Year Ended	
	31/12/2019 RM'000	31/12/2018 RM'000	31/12/2019 RM'000	31/12/2018 RM'000
Revenue	125,977	112,218	490,105	422,201
Cost of goods sold	(77,709)	(74,475)	(310,824)	(284,429)
Gross profit	48,268	37,743	179,281	137,772
Other income	5,938	8,178	18,095	13,219
Administrative expenses	(13,660)	(13,336)	(50,024)	(46,447)
Distribution costs	(1,855)	(1,992)	(7,204)	(4,438)
Other operating expenses	(67)	(94)	(328)	(243)
Operating profit	38,624	30,499	139,820	99,863
Finance costs	(36)	(46)	(187)	(192)
Share of results of an associate	(427)	(18)	(734)	(65)
Profit before taxation	38,161	30,435	138,899	99,606
Taxation	(2,643)	(1,117)	(7,799)	(5,587)
Profit and total comprehensive income for the period/year	35,518	29,318	131,100	94,019
Profit and total comprehensive income for the period/year attributable to :				
Owners of the Company	22,459	18,835	83,044	57,116
Non-controlling interests	13,059	10,483	48,056	36,903
	35,518	29,318	131,100	94,019
Earnings per share attributable to owners of the Company (sen) :- - Basic and diluted	4.73	3.97	17.49	12.03
One-off and non-recurring costs				
Listing expenses	-	-	-	5,449
Stamp duty paid for transfer of shares	-	-	-	527
Reported profit for the period/year	35,518	29,318	131,100	94,019
Adjusted profit for the period/year	35,518	29,318	131,100	99,995

The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income Statement should be read in conjunction with the audited financial statements for the year ended 31 December 2018.

**PENTAMASTER CORPORATION BERHAD (572307-U) ("PCB" or "Company")
QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Unaudited As at 31/12/2019 RM'000	Audited As at 31/12/2018 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	85,627	71,651
Goodwill	4,495	-
Intangible assets	40,100	10,797
Investment property	9,948	10,050
Investment in an associate	4,062	3,046
Other receivables, deposits and prepayments	21,460	-
	<u>165,692</u>	<u>95,544</u>
Current assets		
Inventories	59,458	138,115
Trade receivables	65,600	51,913
Other receivables, deposits and prepayments	21,027	34,829
Derivative financial assets	2,395	-
Tax recoverable	146	984
Cash and cash equivalents	423,251	324,653
	<u>571,877</u>	<u>550,494</u>
TOTAL ASSETS	<u><u>737,569</u></u>	<u><u>646,038</u></u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	79,303	79,303
Reserves	357,299	276,934
	<u>436,602</u>	<u>356,237</u>
Non-controlling interests	159,285	118,220
Total Equity	<u>595,887</u>	<u>474,457</u>
LIABILITIES		
Non-current liabilities		
Borrowings	3,004	3,346
Deferred income	2,072	288
Other payables, accruals and provision	5,598	-
Deferred tax liabilities	5,374	-
	<u>16,048</u>	<u>3,634</u>
Current liabilities		
Trade payables	33,030	40,003
Other payables, accruals and provision	40,719	22,470
Contract liabilities	49,559	99,092
Derivative financial liabilities	-	4,810
Borrowings	358	416
Provision for taxation	1,968	1,156
	<u>125,634</u>	<u>167,947</u>
Total Liabilities	<u>141,682</u>	<u>171,581</u>
TOTAL EQUITY AND LIABILITIES	<u><u>737,569</u></u>	<u><u>646,038</u></u>

The unaudited Condensed Consolidated Statement of Financial Position as at 31 December 2019 should be read in conjunction with the audited financial statements for the year ended 31 December 2018.

PENTAMASTER CORPORATION BERHAD (572307-U) ("PCB" or "Company")
QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Equity attributable to owners of the Company				Non-controlling Interests	Total equity
	Share capital	Share premium	Retained profits	Total		
	RM'000	RM'000	RM'000	RM'000		
As at 1 January 2019	79,303	-	276,934	356,237	118,220	474,457
Total comprehensive income for the year	-	-	83,044	83,044	48,056	131,100
<i>Transactions with owners:</i>						
Effect of changes in shareholding	-	-	(2,679)	(2,679)	(2,253)	(4,932)
Dividend to non-controlling interests	-	-	-	-	(4,738)	(4,738)
As at 31 December 2019	<u>79,303</u>	<u>-</u>	<u>357,299</u>	<u>436,602</u>	<u>159,285</u>	<u>595,887</u>

	Equity attributable to owners of the Company				Non-controlling Interests	Total equity
	Share capital	Share premium	Retained profits	Total		
	RM'000	RM'000	RM'000	RM'000		
As at 1 January 2018	79,303	-	100,917	180,220	20,126	200,346
Total comprehensive income for the year	-	-	57,116	57,116	36,903	94,019
<i>Transactions with owners:</i>						
Disposal of equity interest in a subsidiary to non-controlling interests	-	-	118,901	118,901	61,191	180,092
As at 31 December 2018	<u>79,303</u>	<u>-</u>	<u>276,934</u>	<u>356,237</u>	<u>118,220</u>	<u>474,457</u>

The unaudited Condensed Consolidated Statement of Changes in Equity for the year ended 31 December 2019 should be read in conjunction with the audited financial statements for the year ended 31 December 2018.

**PENTAMASTER CORPORATION BERHAD (572307-U) ("PCB" or "Company")
 QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2019**

	12 Months ended 31/12/2019 RM'000	12 Months ended 31/12/2018 RM'000
Cash flows from operating activities		
Profit before taxation	138,899	99,606
Adjustments for:		
Amortisation of intangible assets	765	3,042
Deferred income released	(252)	(131)
Deposit forfeited	-	32
Depreciation	3,801	2,604
Expected credit loss ("ECL") allowances on trade receivables	3,824	-
Bad debts recovery	-	(6)
Interest expense	186	192
Interest income	(10,595)	(3,113)
(Gain)/loss from changes in fair value of foreign currency forward contracts	(7,205)	5,272
Property, plant and equipment written off	3	-
Gain on disposal of property, plant and equipment	(14)	-
Provision for warranty - current year	866	736
Provision for warranty - reversal	(736)	(444)
Inventory written downs - addition	2,497	176
Inventory written downs - reversal	(434)	(21)
Share of results of an associate	734	65
Unrealised loss/(gain) on foreign exchange	2,817	(8,329)
Operating profit before working capital changes	<u>135,156</u>	<u>99,681</u>
Increase/(Decrease) in inventories	95,398	(16,699)
Decrease in receivables	(14,762)	(12,417)
(Decrease)/Increase in payables	(21,265)	27,409
Decrease in contract liabilities	(49,533)	(16,938)
Cash generated from operations	<u>144,994</u>	<u>81,036</u>
Interest paid	(187)	(192)
Tax paid	(7,257)	(6,002)
Tax refunded	1,122	81
Net cash generated from operating activities	<u>138,672</u>	<u>74,923</u>
Cash flows from investing activities		
Interest received	10,595	3,113
Investment in an associate	(1,750)	(2,100)
Investment in a subsidiary	(31,568)	-
Acquisition of a subsidiary, net of cash acquired	(15,379)	-
Purchase of property, plant and equipment	(14,051)	(28,284)
Purchase of investment property	-	(10,050)
Purchase of intangible assets	(7,675)	(10,826)
Proceed from disposal of property, plant and equipment	24	-
Proceed from disposal of investment in a subsidiary	-	29,500
Net cash used in investing activities	<u>(59,804)</u>	<u>(18,647)</u>

**PENTAMASTER CORPORATION BERHAD (572307-U) ("PCB" or "Company")
 QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2019**

	12 Months ended 31/12/2019 RM'000	12 Months ended 31/12/2018 RM'000
Cash flows from financing activities		
Dividend paid	(4,738)	-
Proceeds from disposal of shares to non-controlling interest of a subsidiary	26,636	87,102
Proceeds from issuance of shares to non-controlling interest of a subsidiary	-	92,989
Repayment of finance lease liabilities	(82)	(187)
Repayment of term loan	(318)	(320)
Net cash generated from financing activities	<u>21,498</u>	<u>179,584</u>
Net increase In cash and cash equivalents	100,366	235,860
Effect of foreign exchange rate changes	(1,768)	6,591
Cash and cash equivalents at the beginning of the year	<u>324,653</u>	<u>82,202</u>
Cash and cash equivalents at the end of the year	<u><u>423,251</u></u>	<u><u>324,653</u></u>

The unaudited Condensed Consolidated Statement of Cash Flows for the year ended 31 December 2019 should be read in conjunction with the audited financial statements for the year ended 31 December 2018.

**PENTAMASTER CORPORATION BERHAD (572307-U) ("PCB" or "Company")
QUARTERLY REPORT ON UNAUDITED CONSOLIDATED RESULTS**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019**

(1) Acquisition of a subsidiary

On 26 September 2019, the Group entered into a sale and purchase agreement with all the existing shareholders of TP Concept Sdn. Bhd. ("TP") to acquire 100% equity interest in TP comprising 250,000 ordinary shares each fully paid up at a consideration of RM21,000,000 (the "Acquisition"). The conditions for completion of the sale and purchase agreement have been fulfilled and the Acquisition was completed on 27 September 2019. For further details, please refer to the announcements of the Company dated 26 September 2019 and 27 September 2019 respectively.

Assets acquired and liabilities recognised at the date of acquisition

	MYR'000
Property, plant and equipment	3,638
Intangible assets	22,393
Inventories	18,803
Trade and other receivables	11,484
Cash and cash equivalents	(6,379)
Trade and other payables	(26,631)
Deferred income	(2,036)
Deferred tax liabilities	<u>(5,374)</u>
Share of net liabilities acquired	<u><u>15,898</u></u>

Goodwill arising on acquisition

	MYR'000
Consideration transferred/payable	20,393
Fair value of identifiable net assets acquired	<u>(15,898)</u>
	<u><u>4,495</u></u>

Net cash flow on acquisition of a subsidiary

	MYR'000
Consideration paid in cash	(9,000)
Cash and cash equivalent acquired	<u>(6,379)</u>
	<u><u>(15,379)</u></u>

PENTAMASTER CORPORATION BERHAD (572307-U)
(“PCB” or “Company”)
Notes To The Interim Financial Report For Year ended 31 December 2019

1 Basis of Preparation

The interim financial report is unaudited and has been prepared in accordance with MFRS 134: Interim Financial Reporting issued by the Malaysian Accounting Standards Board (“MASB”) and paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Malaysia”). The figures for the cumulative period in the current quarter to 31 December 2019 have not been audited.

The interim financial report should be read in conjunction with the audited financial statements of the Company and its subsidiaries (“Group”) for the year ended 31 December 2018.

The accounting policies and methods of computation adopted for the interim financial report are consistent with those adopted in the audited financial statements for the year ended 31 December 2018, except for the adoption of the following Malaysian Financial Reporting Standards (“MFRS”) that are effective for annual period beginning on or after 1 January 2019:

MFRS 16 *Leases*

Amendments to MFRS 9 *Financial Instrument: Prepayment Features with Negative Compensation*

Amendments to MFRS 119 *Employee Benefits: Plan Amendment, Curtailment or Settlement*

Amendments to MFRS 128 *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*

IC Interpretation 23 *Uncertainty over Income Tax Treatments*

Annual Improvements to MFRS Standards 2015-2017 Cycle

The adoption of the above MFRSs did not result in any significant changes in the accounting policies of the Group.

The Group has not applied the following MFRSs which have been issued as at the end of reporting period but are not yet effective: -

Amendment to *References to the Conceptual Framework in MFRS Standards*¹

Amendments to MFRS 9, MFRS 139 and MFRS 7 *Interest Rate Benchmark Reform*¹

Amendments to MFRS 101 and MFRS 108 *Definition of Material*¹

MFRS 17 *Insurance Contracts*²

Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*³

Amendments to MFRS 3 *Definition of a Business*⁴

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective date not yet determined

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

2 Audit Report of Preceding Annual Financial Statements

The audit report of the Group’s most recent annual audited financial statements for the year ended 31 December 2018 was not subject to any qualification.

PENTAMASTER CORPORATION BERHAD (572307-U)

(“PCB” or “Company”)

Notes To The Interim Financial Report For Year ended 31 December 2019

3 Seasonal and Cyclical Factors

The Group sells its products and services to customers from various sub-sectors of the semiconductor and manufacturing industries. As such, the Group’s performance will, to a certain extent, depend on the outlook and cyclical nature of the semiconductor and manufacturing industries.

4 Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the financial period under review.

5 Changes in Estimates

There were no changes in estimates of amounts reported in prior financial years that have a material effect in the current quarter.

6 Valuations of Property, Plant and Equipment

The carrying values of property, plant and equipment have been brought forward, without amendment from the previous audited financial statements.

7 Changes in Share Capital and Debt

Save as disclosed under Note 20 of this announcement, there were no issuances, cancellations, repurchases and repayments of debt and equity securities for the period under review.

8 Contingent Liabilities

There were no contingent liabilities for the Group since 31 December 2018 up to 31 December 2019.

9 Capital Commitments

	Amount
	RM'000
Contracted but not provided for:	
- Property, plant and equipment	5,815
- Purchase of machinery	6,161

10 Related Party Transaction

There was no related party transaction for the Group since 31 December 2018 up to 31 December 2019.

PENTAMASTER CORPORATION BERHAD (572307-U)
(“PCB” or “Company”)
Notes To The Interim Financial Report For Year ended 31 December 2019

11 Segmental Information

Results for the year ended 31 December 2019

	Automated test equipment	Factory automation solutions	Smart control solutions system	Adjustment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External Revenue	422,489	64,600	3,016		490,105
Inter-segment revenue	8,734	19,711	84	(28,529)	-
Total revenue	431,223	84,311	3,100		490,105
Results					
Segment results	128,759	8,334	(1,618)	(6,250)	129,225
Interest income	6,313	430	-	3,852	10,595
Interest expense	(187)	-	-	-	(187)
Share of results of an associate	-	-	-	(734)	(734)
Profit/(loss) before taxation	134,885	8,764	(1,618)		138,899
Taxation	(7,755)	(44)	-		(7,799)
Profit/(loss) after taxation	127,130	8,720	(1,618)		131,100

Results for the year ended 31 December 2018

	Automated test equipment	Factory automation solutions	Smart control solutions system	Adjustment	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue					
External Revenue	337,884	79,210	5,107	-	422,201
Inter-segment revenue	10,814	7,192	971	(18,977)	-
Total revenue	348,698	86,402	6,078		422,201
Results					
Segment results	93,812	8,917	580	(6,559)	96,750
Interest income	1,908	73	2	1,130	3,113
Interest expense	(188)	-	(4)	-	(192)
Share of results of an associate	-	-	-	(65)	(65)
Profit before taxation	95,532	8,990	578		99,606
Taxation	(5,335)	(22)	(230)		(5,587)
Profit after taxation	90,197	8,968	348		94,019

PENTAMASTER CORPORATION BERHAD (572307-U)
(“PCB” or “Company”)
Notes To The Interim Financial Report For Year ended 31 December 2019

12 Profit Before Taxation

	Current Quarter	Current Year to Date
	RM'000	RM'000
Profit before taxation is arrived at after crediting/(charging):		
Depreciation and amortisation	(1,215)	(4,295)
Gain/(loss) on foreign exchange		
-realised	287	(2,308)
-unrealised	(2,829)	(2,817)
Gain from changes in fair value of foreign currency forward contracts	2,682	7,205
Gain on disposal of property, plant and equipment	-	14
Interest income	2,983	10,595
Interest expense	(36)	(187)
Gain/(loss) on disposal of quoted or unquoted investments or properties	-	-
Investment income	-	-
Inventory written off	-	-
Inventory written downs – addition	(101)	(2,497)
Inventory written downs – reversal	24	434
ECL allowances on trade receivables	(1,339)	(3,824)
Impairment loss on trade receivables-reversal	-	-

13 Events Subsequent to the End of the Year

The outbreak of novel coronavirus (COVID-19) continues to spread throughout China and to countries across the world.

The COVID-19 has certain impact on the business operations of the Group in particular the supply chain from China as well as the delivery and buy-off process of machineries to certain degree, and the degree of the impact depends on the situation of the epidemic preventive measures and the duration of the epidemic.

The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Given the dynamic nature of these circumstances, the related impact on our Group’s consolidated results of operations, cash flows and financial condition could not reasonably estimated at this stage and will be reflected in the Group’s 2020 interim and annual financial statements.

PENTAMASTER CORPORATION BERHAD (572307-U)
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Notes To The Interim Financial Report For Year ended 31 December 2019

14 Review of Performance

	Individual Quarter 3 Months Ended			Cumulative Financial Year Ended		
	31/12/2019	31/12/2018	Variance	31/12/2019	31/12/2018	Variance
	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	125,977	112,218	12.3	490,105	422,201	16.1
Operating profit	38,624	30,499	26.6	139,820	99,863	40.0
Profit before taxation	38,161	30,435	25.4	138,899	99,606	39.4
Profit and total comprehensive income for the year	35,518	29,318	21.1	132,100	94,019	40.5

The Group recorded higher revenue at RM126.0 million in the current quarter as compared to RM112.2 million registered in the corresponding quarter last year, representing an increase of 12.3%. The higher revenue recorded was mainly due to increase in sales from the automated test equipment (“ATE”) operating segment.

The Group recorded a higher revenue at RM490.1 million for the twelve months ended 31 December 2019 as compared to RM422.2 million recorded in the previous corresponding year, representing an increase of 16.1% mainly due to increase in sales from the automated test equipment (“ATE”) operating segment which was partially offset by the slight decrease in revenue from the factory automation solutions (“FAS”) segment. The ATE and FAS segments constituted approximately 86.2% and 13.2% of the Group’s external revenue during the financial year ended 31 December 2019 respectively.

The following table sets out revenue breakdown by customers’ segment for the Group:

	Individual Quarter 3 Months Ended				Cumulative Financial Year Ended			
	31/12/2019		31/12/2018		31/12/2019		31/12/2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Telecommunications	85,591	67.9	75,692	67.5	337,394	68.9	304,421	72.1
Automotive	22,079	17.5	11,313	10.1	70,419	14.4	45,839	10.9
Consumer and industrial products	5,510	4.4	12,997	11.6	36,498	7.4	21,346	5.1
Semiconductor	5,032	4.0	11,213	10.0	34,494	7.0	41,228	9.8
Medical devices	7,265	5.8	723	0.6	8,283	1.7	1,421	0.3
Others	500	0.4	280	0.2	3,017	0.6	7,946	1.9
Total	125,977		112,218		490,105		422,201	

Due to higher revenue achieved during the three months ended 31 December 2019, the Group consequently recorded a higher profit before taxation of RM38.2 million in the current quarter as compared to the profit before taxation of RM30.4 million in the previous corresponding quarter, representing an increase of 25.4%.

The Group recorded a profit before taxation of RM138.9 million for the year ended 31 December 2019, an increase of 31.5% as compared to the adjusted profit before taxation of RM105.6 million for the financial year ended 31 December 2018, after excluding the one-off listing expenses incurred in 2018. The increase in the profit before taxation for the financial year ended 31 December 2019 was mainly due to improvement in the Group’s operating efficiency as evidenced by the increase in the gross profit margin from 32.6% in the financial year ended 31 December 2018 to 36.6% in the financial year ended 31 December 2019.

PENTAMASTER CORPORATION BERHAD (572307-U)
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Notes To The Interim Financial Report For Year ended 31 December 2019

Performance of the respective operating segments which includes inter-segment transactions for the current quarter as compared to the previous corresponding quarter is analysed as follows:

1) Automated test equipment

The ATE segment remains as the Group’s major revenue source. The products and solutions under this segment consist of designing, development and manufacturing of standard and non-standard automated equipment.

This segment recorded an increase in revenue by RM29.6 million or 36.9% to RM109.8 million in the current quarter as compared to the previous corresponding quarter last year, and an increase in revenue by RM82.5 million or 23.7% to RM431.2 million for the financial year ended 31 December 2019 as compared to the previous financial year ended 31 December 2018. The growth in revenue under the ATE segment for the financial year ended 31 December 2019 was mainly attributable to continuous growth in the demand for smart sensors coupled with its evolving complexity and wider adoption rate across the telecommunications and automotive segments, leading to a demand-driven growth for the Group’s smart device test handlers and solutions. Within the telecommunications sector, the Group witnessed delivery of a more diverse and complex portfolio covering, among others, test equipment as well as active alignment assembling equipment for 3D sensor modules encompassing lens, collimator and diffuser optics. These new ATE products and solutions further supplemented the continuous demand for the Group’s flagship test solution in ambient and proximity sensors which are customised for the smartphones and its peripheral items.

While the telecommunications industry is still dominant within the ATE segment in terms of its revenue contribution, the Group has continuously endeavored to diversify its revenue base to other segments, in particular, the automotive segment. During the year, the Group’s exposure to the automotive segment had generated commendable contribution through the delivery of its test handling equipment mainly for MLCC (multilayer ceramic capacitors), IGBT (insulated-gate bipolar transistor), automotive power management and power devices. Moving forward, the momentum of the Group’s exposure in the automotive industry is expected to grow based on the number of orders the Group secured from new global automotive component companies.

Taking into account the current trend where new generation devices typically have a higher turnover rate and shorter time-to-market, the demand for the Group’s smart sensor test equipment and solutions remain robust in the coming year, notwithstanding the Group’s increasing exposure to the consumer and industrial product segment that is showing positive momentum.

As a result of higher revenue achieved and changes in sales mix, this segment recorded higher profit before taxation by RM14.1 million or 55.1% in the current quarter under review as compared to profit before taxation of RM25.6 million in the corresponding quarter last year. For the financial year ended 31 December 2019, The Group recorded higher profit before taxation by RM39.3 million or 41.2% as compared to the financial year ended 31 December 2018 due to improvement in the Group’s operating efficiency.

PENTAMASTER CORPORATION BERHAD (572307-U)
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Notes To The Interim Financial Report For Year ended 31 December 2019

2) Factory automation solutions

The products and solutions in this segment entail designing, development and installation of integrated automated manufacturing solutions.

This segment recorded revenue of RM28.1 million in the current quarter as compared to revenue of RM33.7 million in the corresponding quarter last year, representing decrease of approximately 16.6%. For the financial year ended 31 December 2019, the Group recorded revenue of RM84.3 million as compared to the revenue of RM86.4 million in the corresponding year in 2018, representing a slight decrease of RM2.1 million or 2.4%. The decrease in revenue from the FAS segment during the financial year ended 31 December 2019 as compared to the financial year ended 31 December 2018 was mainly due to the timing differences of project delivery for certain complex projects that fell beyond 2019.

Due to lower revenue, the Group recorded lower profit before taxation by RM4.5 million in the current quarter under review as compared to profit before taxation of RM4.9 million in the previous corresponding quarter was mainly due to higher staff costs. For the financial year ended 31 December 2019, the Group recorded profit before taxation of RM8.8 million as compared to profit before taxation of RM9.0 million for the financial year ended 31 December 2018, representing a decrease of RM0.2 million or 2.2% due to the timing differences of project delivery that fell beyond 2019.

Nevertheless, the Group is positive in the FAS segment given the prevalence of Industry 4.0 and its advancement into the boundaries of artificial intelligence (“AI”). Furthermore, with the profound shortage of skilled workers, rise in labour costs and requirement for higher precision in manufacturing, the Group is witnessing strong opportunities in various manufacturing stages covering production, procurement, storage and logistics with the aim to reduce the time-to-market interval. Against this backdrop, the Group is leveraging on its proprietary intelligent Automated Robotic Manufacturing System (“i-ARMS”) solutions in customizing integrated automation solutions through its intelligent material handling system and sophisticated manufacturing execution system (“MES”). Within the year, the FAS segment has secured new customer in the Greater China region for its i-ARMS solutions for delivery in the coming financial year.

Post-acquisition of TP, a company that is involved in the manufacturing and assembling of medical machines and manufacturing of die casting parts, the FAS segment is expected to witness further growth and contribution from the medical segment. The acquisition presents a growing business segment that complements the Group’s growth catalyst with positive synergy in value adding to the Group’s current products and solutions.

The Group’s establishment of the production plant in Batu Kawan, Penang took place at an opportune time to support the above opportunities of the FAS segment. The Group strongly believes on the growing needs for automation and with the current wave of AI and digitalisation, the FAS segment will be well positioned for the Group’s growth prospects.

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3) Smart control solution system

The products and solutions in this segment entail project management, smart building solutions and trading of materials.

The smart control solution system segment recorded revenue of RM0.5 million in the current quarter as compared to revenue of RM0.3 million in the corresponding quarter last year. For the financial year ended 31 December 2019, the Group recorded revenue of RM3.1 million as compared to RM6.1 million for the financial year ended 31 December 2018 due to lower volume of project delivery. This segment recorded a loss before taxation of RM0.8 million in the current quarter as compared to loss before taxation of RM0.3 million in the corresponding quarter last year. This segment recorded loss before taxation of RM1.6 million for the financial year ended 31 December 2019 as compared to profit before taxation of RM0.6 million for the financial year ended 31 December 2018 due to lower revenue recorded in 2019.

15 Material Changes in the Quarterly Results as Compared with the Preceding Quarter

	3 Months Ended	3 Months Ended	Variance
	31/12/2019	30/9/2019	
	RM'000	RM'000	%
Revenue	125,977	124,633	1.1
Operating profit	38,624	33,338	15.9
Profit before taxation	38,161	33,165	15.1
Profit and total comprehensive income for the year	35,518	33,698	5.4

For the fourth quarter ended 31 December 2019, the Group recorded higher revenue at RM126.0 million as compared to the revenue of RM124.6 million in the preceding quarter, representing an increase of 1.1%. The higher revenue recorded in the current quarter under review was due to increase in sales from the FAS operating segment.

The following table sets out revenue breakdown by customers' segment for the Group:

	3 Months Ended		3 Months Ended	
	31/12/2019		30/9/2019	
	RM'000	%	RM'000	%
Telecommunications	85,591	67.9	94,966	76.2
Automotive	22,079	17.5	16,603	13.3
Consumer and industrial products	5,510	4.4	3,265	2.6
Semiconductor	5,032	4.0	9,474	7.6
Medical devices	7,265	5.8	325	0.3
Others	500	0.4	-	-
Total	125,977		124,633	

The Group recorded a higher profit before taxation of RM38.2 million in the current quarter as compared to the profit before taxation of RM33.2 million in the preceding quarter, representing an increase of 15.1% mainly due an increase in the gross profit

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margin and decrease in the administrative expenses from the lower overall staff costs incurred in the current quarter under review.

Performance of the respective operating segments which includes inter-segment transactions for the fourth quarter ended 31 December 2019 as compared to the preceding quarter is analysed as follows:

1) Automated test equipment

During the three months ended 31 December 2019, revenue from the ATE segment decreased by RM3.1 million to RM109.8 million as compared to the revenue of RM112.9 million achieved in the preceding quarter. The decrease was mainly attributable to the timing differences of project delivery that fell beyond 2019. This segment achieved a higher profit before taxation of RM39.7 million as compared to RM29.5 million in preceding quarter was mainly due to better product mix during the quarter.

2) Factory automation solutions

Revenue from this segment in the current quarter was RM11.1 million higher against revenue of RM17.0 million in the preceding quarter. This was mainly due to higher delivery of the Group’s proprietary i-ARMS solutions as well as its integrated manufacturing solutions and modules that caters for a wide spectrum of customers in various industries. The increase in revenue was also contributed from revenue in the newly acquired subsidiary, TP. This segment recorded lower profit before taxation of RM3.4million in the current quarter was mainly due to changes in product mix.

3) Smart control solution system

Revenue from this segment increased by RM0.4 million as compared to the preceding quarter. Despite recording higher revenue in the current quarter, this segment recorded a loss before taxation of RM0.8 million compare to loss before taxation of RM0.3 million recorded in the preceding quarter due to higher operating costs.

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16 Prospect

The Group generally possess an optimistic view of its business momentum in 2020 judging from the current trend and development coupled with its secured orders visibility. In light of the current macro situation that has gripped world economies since 2019, the Group believes technology trends and evolution will continue. The pervasive use of the Information and Communication Technology (“ICT”) products in our daily life has led to what is now often referred to as the 4th Industrial Revolution. From internet and smartphones to blockchain technology and the AI, the whole of society seems ready and eager to embrace the latest innovations in the ICT realm. Applications such as 3D, AI, Industry 4.0, IoT (Internet of Things), autonomous cars, electric vehicle (“EV”) and 5G have become the topics that gather most attention.

Coming into the new decade, the traditional business-as-usual will be overhauled with “Smart Everything” that will result in more people being connected, more global data knowledge to be synchronised and analysed and more robots and automation to challenge the social, political and economic landscape. It has been reported that cities across the world has started adopting 3D facial recognition as the identification process and that sales of EVs are expected to accelerate to account for 57.0% of total car sales mainly due to the tightening of emissions regulations. Meanwhile by 2030, 800 million global workforce will be replaced by robotic automation.

With such onset staring at us, the Group believes in continuously exploring, developing and challenging itself to be a key player in the technology supply chain as we head towards the next decade. The Group will continue to seek potential opportunities that will enhance the Group’s value and move itself upwards along the technology value chain that could further solidify and increase its market share and propel the Group to the next growth phase.

From its current product and solution offerings, the Group continue to see huge market opportunities for it to deepen its involvement in the optoelectronics field, catering for a wider adoption of smart sensors in a broader product range and segments. From test handling to assembling, from smartphones to peripherals, from biosecurity to gaming devices, from motion detection to augmented reality, from telecommunications to automotive and to industrial products, the Group has gained exposure into these technology advancements and will continue to gain deeper traction.

Concurrently, the Group is also witnessing significant potential and development in its FAS segment with more and more companies adopting robotic automation as part of its manufacturing process. With precision, efficiency, productivity, big data and digitalisation, coupled with intermediate supply chain disruption such as trade diversion, the Group will continue to leverage on its strong track record and capabilities in furthering its market share and capturing opportunities across different industry segments. It has been reported by Boston Consulting Group that robotic automation share of tasks is expected to grow from the current average rate of 10% to 25% by 2025 in the United States and such share growth opportunity will be more profound in the Asia Pacific region.

Given the prevalence of Industry 4.0 that is currently transforming the manufacturing supply chain, the Group is witnessing huge development in automation and digitalisation that can be stretched in terms of its application to cover the area of logistic and storage. In this context, the Group has initiated another proprietary solution namely i-Hub to create an environment of a smarter and cost effective warehousing and logistic.

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The warehouse and distribution system of the future will be full of smart and interconnected machines with minimal human intervention. The Group believes the demand for its i-Hub will be positive as it is a fully automated product based on modularity concept that allows for space saving, better traceability, speed enhancement and cost efficiency.

It has been unfortunate and with deep sorrow that the world has witnessed the start of the year and decade with major catastrophes and developments, from Australia bush fires to the outbreak of the novel coronavirus (COVID-19) epidemic. While the Group is closely monitoring these developments closely, it remains steadfast in its business strategies and is committed in its Economic, Environment and Social (“EES”) measures to ensure a long term sustainability of the Group’s businesses. The Group will continue to strengthen its EES effort and play its vital role as a good corporate citizen.

Going forward, with the global economy facing a confluence of risks, the Group believes strongly in a solid foundation of its business guided by its core values and the importance of its employees that will bring it to the next growth phase. Barring any acute external market conditions and macroeconomic factors, the Company will continue to grow positively in the coming years and the Group will remain constructive in creating value and returns to its shareholders. Acknowledging the only thing that is constant is “Change”, the Group will develop organically as well as embarking on opportunities via acquisitions or collaborations that are synergistic to the Group going forward.

17 Profit Forecast or Profit Guarantee

There was no profit forecast or profit guarantee issued by the Group.

18 Taxation

The taxation charge for the current quarter and year to date is as follows:

	Current Quarter	Current Year to Date
	RM’000	RM’000
Income tax payable	2,643	7,799

The effective tax rate is lower than the statutory tax rate as certain subsidiaries of the Group have been granted pioneer status under the Promotion of Investments Act, 1986 by the Malaysian Industrial Development Authority which exempts 100% of statutory income in relation to production of certain products and solutions.

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19 Changes in the Composition of the Group

During the quarter under review, the Company had acquired and disposed the ordinary shares of its subsidiary company, Pentamaster International Limited (“PIL”), as follows:

Date	Number of Shares Acquired / (Disposed)	Average Price (HKD)	% of Issued Voting Shares Held After Acquisition / Disposal
4/10/2019	(9,844,000)	1.9000	63.10
8/11/2019	5,336,000	2.3391	63.43
26/11/2019	1,580,000	1.9747	63.53
27/11/2019	1,912,000	1.9673	63.65
28/11/2019	1,000,000	1.9917	63.71

(Source: The Hong Kong Exchanges and Clearing Limited - Disclosure of Interest Online System (DION))

The ordinary shares of PIL is traded on the Main Board of The Stock Exchange of Hong Kong Limited.

Except for the above, there were no changes in the composition of the Group during the quarter under review.

20 Corporate Proposals

There were no corporate proposals announced but not completed as at the date of this announcement.

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21 Status of Utilisation of Proceeds Raised From Any Corporate Proposal

1) Share Award Scheme

The utilisation of proceeds of RM29.5 million raised from the share award scheme, in conjunction with the Listing Exercise of PIL, as at the end of the reporting quarter is as follows:

Purpose	Proposed Utilisation (RM'000)	Gross Proceeds Received (RM'000)	Actual Utilisation (RM'000)	Intended Timeframe for Utilisation	Balance (RM'000)
Payment of staff salaries and benefits	4,500	4,500	4,500	Within one (1) year	-
Purchase of raw materials such as sensors, control panels, input/output control and computer field bus system and other services such as subcontracting work	20,000	20,000	1,660	Within five (5) years	18,340
General administrative and operating expenses	5,000	5,000	5,000	Within one (1) year	-
Total	29,500	29,500	11,160		18,340

2) Listing Exercise of PIL

The utilisation of proceeds of RM87.1 million from the offer for sale of PIL shares by the Company, in conjunction with the Listing Exercise of PIL, as at the end of the reporting quarter is as follows:

Purpose	Proposed Utilisation		Gross Proceeds Received⁽²⁾ (RM'000)	Actual Utilisation (RM'000)	Intended Timeframe for Utilisation	Balance (RM'000)
	Minimum Scenario⁽¹⁾ (RM'000)	Maximum Scenario⁽¹⁾ (RM'000)				
Business expansion through investment and acquisition	33,972	37,775	32,741	-	Within five (5) years	32,741
Investment into technology related solutions and business applications	29,726	33,059	28,648	9,089	Within five (5) years	19,559
Working capital	21,172	23,549	20,405	20,405	Within five (5) years	-
Defray estimated expenses in relation to Listing Exercise, bonus issue and share split, collectively	5,508	5,508	5,306	5,306	Within six (6) months	-
Total	90,378	99,891	87,100	34,800		52,300

Notes:

- (1) *The minimum and maximum scenario under the proposed utilisation was based on the indicative offer price in relation to the Listing Exercise of HKD0.95 and HKD1.05 respectively.*
- (2) *The actual gross proceeds received was based on the actual offer price in relation to the Listing Exercise of HKD1.00. The difference between the gross proceeds received and the proposed utilisation was due to the difference in the conversion rate.*

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22 Borrowings

The Group’s borrowings as at the end of the reporting quarter are as follows:

	RM'000
<u>Short term borrowings (secured)</u>	
Finance lease liabilities	-
Term loan	358
<u>Long term borrowings (secured)</u>	
Finance lease liabilities	-
Term loan	3,004
Total	3,362

All borrowings are denominated in Ringgit Malaysia.

The term loan is secured by way of legal charge over a leasehold land of a subsidiary of the Company.

23 Derivative Financial Instruments

As at the date of the statement of financial position 31 December 2019, the Group has the following outstanding derivative financial instruments:

Derivatives	Contract or Notional amount (RM'000)	Fair value Net gain/(loss) (RM'000)	Purpose
Currency forward contracts: -Less than 1 year	90,691	2,395	For hedging currency risk arising from sales proceeds in foreign currencies

For the quarter ended 31 December 2019, there have been no significant changes to the Group’s exposure to credit risk, market risk and liquidity risk from the previous financial year. Also, there have been no changes to the Group’s risk management objectives, accounting policies and processes since the previous financial year end. Financial instruments are viewed as risk management tools by the Group and are not used for trading or speculative purposes.

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24 Fair Value of Financial Liabilities

For the quarter ended 31 December 2019, there is no fair value gain or loss on the financial liabilities. The carrying amounts of the financial liabilities as at date of the end of the statement of financial position date approximate to their fair value due to their short-term nature.

25 Material Litigations

There was no material litigation since the last annual balance sheet date until the date of this announcement.

26 Dividends

The Directors recommend a final single-tier dividend of RM0.015 per ordinary share amounting to approximately RM7.1 million in respect of the financial year ended 31 December 2019 for shareholders’ approval at the forthcoming Annual General Meeting. The current financial statements do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 December 2020.

27 Earnings Per Share

The calculation of basic earnings per share for the period is based on the profit and total comprehensive income attributable to owners of the Company for the quarter and the financial year divided by the weighted average number of ordinary shares in issue during the quarter and the financial year.

	3 Months Ended 31/12/2019 RM'000	3 Months Ended 31/12/2018 RM'000	12 Months Ended 31/12/2019 RM'000	12 Months Ended 31/12/2018 RM'000
Profit and total comprehensive income attributable to owners of the Company	22,459	18,835	83,044	57,116
Weighted average number of ordinary shares	474,878,099	474,878,099	474,878,099	474,878,099
Earnings per share attributable to owners of the Company (sen)	4.73	3.97	17.49	12.03

BY ORDER OF THE BOARD

LIM KIM TECK
Secretary
27 February 2020