

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
Statement of Profit or Loss and Other Comprehensive Income
For The 2nd Quarter Ended 30 June 2020

The unaudited financial results of Kelington Group Berhad and its subsidiaries (the "Group") for the period ended 30 June 2020 are as follow:-

	Unaudited	Unaudited		Unaudited	Unaudited	
	Current	Previous	+	6-months	6-months	+
	Qtr Ended	Qtr Ended	-	Period	Period	-
	30.6.2020	30.6.2019	-	up to	up to	-
	30.6.2020	30.6.2019	-	30.6.2020	30.6.2019	-
Note	RM'000	RM'000	%	RM'000	RM'000	%
Revenue	77,333	95,078	-	162,064	171,485	-
Cost of sales	(72,114)	(80,232)	19	(145,652)	(142,677)	5
Gross profit	<u>5,219</u>	<u>14,846</u>	-	<u>16,412</u>	<u>28,808</u>	43
Other income	3,232	942		4,846	1,457	
Administrative expenses	(6,056)	(7,600)		(12,414)	(13,137)	
Selling and distribution expenses	(345)	(351)		(545)	(644)	
Other expenses	(292)	(430)		(944)	(2,230)	
Results from operating activities	<u>1,758</u>	<u>7,407</u>	-	<u>7,355</u>	<u>14,254</u>	-
Finance costs	(560)	(251)	76	(1,255)	(594)	48
Profit before taxation for the financial period	<u>1,198</u>	<u>7,156</u>	-	<u>6,100</u>	<u>13,660</u>	-
Taxation	(558)	(2,143)	83	(1,437)	(3,869)	55
Profit after taxation for the financial period	<u>640</u>	<u>5,013</u>	-	<u>4,663</u>	<u>9,791</u>	-
Other comprehensive income, net of tax						
Foreign currency translation	81	369		(485)	2,022	
	<u>81</u>	<u>369</u>		<u>(485)</u>	<u>2,022</u>	
Total comprehensive income for the period	<u>721</u>	<u>5,382</u>		<u>4,178</u>	<u>11,813</u>	
Profit attributable to:						
Shareholders of the Company	623	5,098	-	4,678	9,941	-
Non-controlling interests	17	(85)	88	(15)	(150)	53
Profit after taxation for the financial period	<u>640</u>	<u>5,013</u>	-	<u>4,663</u>	<u>9,791</u>	-
Total comprehensive income attributable to:						
Shareholders of the Company	703	5,468		4,190	11,962	
Non-controlling interests	18	(86)		(12)	(149)	
Total comprehensive income for the period	<u>721</u>	<u>5,382</u>		<u>4,178</u>	<u>11,813</u>	
Basic earnings per ordinary share (sen):						
Basic earnings per share (sen)	0.20	1.71		1.48	3.33	
Diluted earnings per share (sen)	0.19	1.63		1.48	3.17	

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with KGB's audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
Statement of Financial Position
As at 30 June 2020

	Unaudited As At 30.6.2020 RM'000	Audited As At 31.12.2019 RM'000
ASSETS		
Non-current assets		
Property, plant & equipment	58,842	52,959
Goodwill on consolidation	6,413	6,360
Right of use	4,022	4,299
	69,277	63,618
Current assets		
Inventories	4,850	552
Contract assets	73,495	49,496
Trade receivables	62,886	90,915
Other receivables, prepayments and deposits	10,173	13,103
Current tax assets	1,398	303
Fixed deposits with licensed banks	30,376	28,088
Cash and bank balances	52,436	56,980
	235,614	239,437
	304,891	303,055
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Equity		
Share capital	73,250	71,276
Retained earnings	74,249	69,571
Other reserve	12,904	14,948
Treasury share	(534)	(534)
Total Equity attributable to Shareholders of the Company	159,869	155,261
Non-controlling interests	261	273
Total Equity	160,130	155,534
Non-current liabilities		
Deferred tax liabilities	92	92
Lease liability	2,171	2,545
Long-term borrowings	28,359	23,327
	30,622	25,964
Current liabilities		
Contract liabilities	37,132	31,128
Trade payables	43,136	40,349
Other payables and accruals	11,697	32,268
Lease liability	704	738
Current tax liabilities	4,266	4,993
Short term borrowings	17,204	12,081
	114,139	121,557
Total liabilities	144,761	147,521
	304,891	303,055
TOTAL EQUITY AND LIABILITIES		
Net Assets Per Share Attributable to ordinary Equity holders of the company (RM)	0.4967	0.4994

The Statement of Financial Position should be read in conjunction with the audited consolidated financial statements of KGB for the financial year ended 31 December 2019 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
 Condensed Consolidated Statements of Changes in Equity
 For The 2nd Quarter Ended 30 June 2020

	<----- Attributable to Equity Holders of the Company ----->					Distributable	Total	Non-Controlling	Total
	<----- Non Distributable ----->								
	Share Capital RM'000	Capital Reserve RM'000	Employee Share Scheme Reserve RM'000	Exchange Fluctuation Reserve RM'000	Treasury Share RM'000	Earnings RM'000	RM'000	RM'000	RM'000
As at 1 January 2020	71,276	9,311	1,597	4,040	(534)	69,571	155,261	273	155,534
Profit after taxation for the financial period	-	-	-	-	-	4,678	4,678	(15)	4,663
Other comprehensive expense, net of tax:									
- Foreign currency translation	-	-	-	(488)	-	-	(488)	3	(485)
Total comprehensive (expense)/ income for the financial period	-	-	-	(488)	-	4,678	4,190	(12)	4,178
Contributions by and distribution to owners of the company:									
- Employees' share scheme reserve	-	-	418	-	-	-	418	-	418
- Employees' share scheme offered	1,974	-	(1,974)	-	-	-	-	-	-
Total recognised income and expense for the period	1,974	-	(1,556)	-	-	-	418	-	418
As at 30 June 2020	73,250	9,311	41	3,552	(534)	74,249	159,869	261	160,130
As at 1 January 2019	50,422	9,217	1,385	4,596	(534)	51,054	116,140	75	116,215
Profit after taxation for the financial year	-	-	-	-	-	9,941	9,941	(150)	9,791
Other comprehensive income, net of tax:									
- Foreign currency translation differences	-	-	-	2,021	-	-	2,021	1	2,022
Total comprehensive income/ (expenses) for the financial year	-	-	-	2,021	-	9,941	11,962	(149)	11,813
Contributions by and distribution to owners of the company:									
- Employees' share scheme reserve	-	-	416	-	-	-	416	-	416
- Warrants exercised	20,226	-	-	-	-	-	20,226	-	20,226
- Investment in a subsidiary:									
- Ace Gases Sdn Bhd	-	-	-	-	-	-	-	267	267
- Ace Gases Marketing Sdn Bhd	-	-	-	-	-	-	-	80	80
- Dividends paid for the period	-	-	-	-	-	(2,353)	(2,353)	-	(2,353)
Total transactions with owners	20,226	-	416	-	-	(2,353)	18,289	347	18,636
As at 30 June 2019	70,648	9,217	1,801	6,617	(534)	58,642	146,391	273	146,664

The Condensed Consolidated Statements of Changes in Equity should be read in conjunction with KGB's audited consolidated financial statements for the financial year ended 31 December 2019 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
Condensed Consolidated Statement of Cash Flow
For The Period Ended 30 June 2020

	Unaudited 6-Months Ended 30.6.2020 RM'000	Unaudited 6-Months Ended 30.6.2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	6,100	13,660
Adjustments for:-		
Depreciation of property, plant and equipment	2,508	1,143
Equipment written off	12	5
Impairment loss on trade receivables	-	331
Interest expense	1,173	508
Interest income	(365)	(137)
Loss/(gain) on disposal of equipment	1	(1)
Share-based payments	418	416
Writeback of impairment loss on trade receivables	(249)	(703)
Unrealised (loss)/gain on foreign exchange	(1,980)	392
Operating profit before working capital changes	7,618	15,614
Increase in inventory	(4,298)	-
(Increase)/Decrease in contract assets /(contract liabilities)	(17,590)	661
Derease in trade and other receivables	30,616	32,456
Decrease in trade and other payables	(16,794)	(28,728)
CASH (FOR)/ FROM OPERATIONS	(448)	20,003
Income tax paid	(3,259)	(3,150)
Interest paid	(1,173)	(508)
Interest received	365	137
NET CASH (FOR)/ FROM OPERATING ACTIVITIES	(4,515)	16,482
CASH FLOWS FOR INVESTING ACTIVITIES		
Purchase of plant and equipments	(5,291)	(13,938)
Proceeds from disposal of equipment	46	-
Placement of fixed deposit pledged with licensed bank	(241)	(107)
Capital contribution from non-controlling interests	-	347
NET CASH FOR INVESTING ACTIVITIES	(5,486)	(13,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(5,009)
Repayment of revolving credit	-	(3,035)
Drawdown of bankers' acceptance	378	-
Net (repayment)/drawdown of lease liability	(408)	2,973
Net drawdown/ (repayment) of term loan	5,636	(1,104)
Drawdown/ (repayment) of invoice financing	2,396	(255)
Proceeds from exercise of warrants	-	20,227
NET CASH FROM FINANCING ACTIVITIES	8,002	13,797
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(1,999)	16,582
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(693)	2,100
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	67,997	52,202
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	65,305	70,884

Cash and cash equivalents at the end of financial period comprise the following:

Cash and bank balances	52,436	49,818
Fixed deposits	30,376	36,081
	82,812	85,899
Less: Bank overdraft	(195)	-
Less: fixed deposits pledged with licensed banks	(17,312)	(15,015)
	65,305	70,884

The Condensed Consolidated Statement of Cash Flow should be read in conjunction with the audited consolidated financial statements of KGB for the year ended 31 December 2019 and the accompanying explanatory notes enclosed to the interim financial statements.

Part A - Explanatory Notes Pursuant to MFRS 134

1. Basis of Preparation

The financial statements of the Group are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The interim financial statements are unaudited and have been prepared in accordance with the requirements of MFRS 134 : Interim Financial Reporting and in accordance to the requirements of Appendix 9B of the Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia").

The interim financial statements should be read in conjunction with KGB's audited consolidated financial statements for the financial year ended ("FYE") 31 December 2019. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2019.

The accounting policies and methods of presentation and computation adopted in this interim financial report are consistent with those adopted in the most recent annual financial statements for the FYE 31 December 2019.

The Group has not applied in advance the following accounting standards and interpretations (including the consequential amendments) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

MFRSs and/or IC Interpretations (Including the Consequential Amendments)	Effective date
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 3: Reference to the Conceptual Framework	1 January 2022
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2022
Amendments to MFRS 116: Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to MFRS 137: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to MFRS Standards 2018 – 2020	1 January 2022

The adoption of the above accounting standards and interpretations (including the consequential amendments) is expected to have no material impact on the financial statements of the Group upon their initial application.

Revenue on contracts is recognised on the percentage of completion method unless the outcome of the contract cannot be reliably determined, in which case revenue on contracts is only recognised to the extent of contract costs incurred that are recoverable. Foreseeable losses, if any, are provided for in full as and when it can be reasonably ascertained that the contract will result in a loss. The stage of completion is determined based on the proportion that the contract costs incurred for work performed to date bear to the estimated total contract costs.

2. Status of Audit Qualification

There were no audit qualification to the annual audited financial statements of the Group for the FYE 31 December 2019.

3. Segmental Information

(a) Business Segment

The Group is organised into 3 main reportable segments as follows:

- (i) Service segment - involved in the renting of skid tank, provision of scientific and technical researches, laboratory testing service and experiments;
- (ii) Manufacturing and trading segment - involved in the manufacturing and trading of industrial gases and materials for contracts; and
- (iii) Construction segment - involved in the provision of engineering services and construction.

	Service Segment	Manufacturing and Trading Segment	Construction Segment	The Group
	RM'000	RM'000	RM'000	RM'000
30.6.2020				
Revenue				
External revenue	339	12,368	149,357	162,064
Inter-segment revenue	15	61	2,032	2,108
	<u>354</u>	<u>12,429</u>	<u>151,389</u>	<u>164,172</u>
Consolidated Adjustments				(2,108)
				<u>162,064</u>

	Service Segment	Manufacturing and Trading Segment	Construction Segment	The Group
	RM'000	RM'000	RM'000	RM'000
30.6.2019				
Revenue				
External revenue	270	2,513	168,702	171,485
Inter-segment revenue			2,759	2,759
	<u>270</u>	<u>2,513</u>	<u>171,461</u>	<u>174,244</u>
Consolidated Adjustments				(2,759)
				<u>171,485</u>

3. Segmental Information (Cont'd)

(b) Geographical information

Revenue is based on the country in which the customers are located. Non-current assets are determined according to the country where these assets are located.

	Revenue		Non-current Assets	
	30.6.2020 RM'000	30.6.2019 RM'000	30.6.2020 RM'000	30.6.2019 RM'000
Malaysia	38,644	45,710	55,835	32,739
China	45,061	51,410	4,025	1,577
Taiwan	5,753	4,705	187	220
Singapore	70,875	68,944	9,230	9,200
Indonesia	326	716	-	-
Vietnam	1,405	-	-	-
	<u>162,064</u>	<u>171,485</u>	<u>69,277</u>	<u>43,736</u>

4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter ended 30 June 2020.

5. Material Changes in Estimates

There were no material changes in estimates used in the preparation of the financial statements in the current financial quarter as compared with the previous financial quarters or financial year.

6. Seasonal or Cyclical Factors

The interim operations of the Group were not affected by any significant seasonal or cyclical factors during the quarter under review.

7. Dividends Paid

There were no dividends paid during the current quarter under review.

8. Valuation of Property, Plant and Equipment

Property, plant and equipment of the Group were not revalued during the current quarter under review. As at 30 June 2020, all the property, plant and equipment were stated at cost less accumulated depreciation.

9. Movement of Debt And Equity Securities

Saved as disclosed in the following, there were no issuance, cancellation, resale and repayment of debt and equity securities during the current quarter under review:

Employee Shares Scheme ("ESS")

On 18 Jun 2020, the Company increased its issued and paid up capital by the issuance of 10,937,850 ordinary shares at an issue price of RM0.18 per ordinary share, subsequent to the vesting of ESS shares to the eligible employees.

10. Changes in Composition of the Group

There were no change in the composition of the Group during the current quarter under review.

11. Discontinued Operation

There were no discontinued operations within the activities of the Group for the quarter under review.

12. Capital Commitments

There were no capital commitments for the purchase of any property, plant and equipment or any other expenses that were not accounted for in the financial statements of the current quarter under review.

13. Changes in Contingent Liabilities and Contingent Assets

Saved as disclosed in the following, there is no other contingent liabilities and contingent assets as at quarter end 30 June 2020:

	As at 30.6.2020 Unaudited RM'000	As at 30.6.2019 Unaudited RM'000
Contingent liabilities		
Bank guarantee and insurance bond given to third party as performance bond or warranty bond	22,820	25,041

14. Material Subsequent Events

Saved as disclosed as below, there has been no material subsequent events after the quarter ended 30 June 2020:

(i) Second Interim Tax-exempt Dividend

On 3 Aug 2020, KGB paid the second interim tax-exempt dividend of 1 sen per ordinary share in respect of the FYE 31 December 2019 amounting to RM3,212,771.

(ii) Employers' Share Scheme (ESS)

On 14 Aug 2020, the Company increased its issued and paid up capital by the issuance of 226,500 ordinary shares at an issue price of RM0.18 per ordinary share, subsequent to the vesting of ESS shares to the eligible employees.

B. Additional information required by the Bursa Malaysia's Listing Requirements

1 Review Of Performance

	Current Year Quarter 30.6.2020 RM'000	Preceding Year Corresponding Quarter 30.6.2019 RM'000	Changes		Current Year-to-date 30.6.2020 RM'000	Preceding Year Corresponding Period 30.6.2019 RM'000	Changes	
			Amount RM'000	%			Amount RM'000	%
Revenue	77,333	95,078	(17,745)	-19%	162,064	171,485	(9,421)	-5%
Operating profit	1,758	7,407	(5,649)	-76%	7,355	14,254	(6,899)	-48%
Profit before tax	1,198	7,156	(5,958)	-83%	6,100	13,660	(7,560)	-55%
Profit after tax	640	5,013	(4,373)	-87%	4,663	9,791	(5,128)	-52%
Profit attributable to shareholders of the company	623	5,098	(4,475)	-88%	4,678	9,941	(5,263)	-53%

(a) Current Quarter vs. Previous Year Corresponding Quarter

	Revenue 2Q2020 30.6.2020 RM'000	% of total	Revenue 2Q2019 30.6.2019 RM'000	% of total
Ultra High Purity	62,745	82%	55,563	58%
Process Engineering	6,202	8%	33,253	35%
General Contracting	5,299	7%	5,029	5%
Industrial Gases	3,087	4%	1,233	1%
Total	77,333		95,078	

The global pandemic ("COVID-19") and the various lockdown measures across our key operating markets has resulted in disruptions to the Group's business and operations.

The Group's revenue for the quarter ended 30 June 2020 ("2Q2020") decreased by 19% year-on-year ("YoY") to RM77.3 million from RM95.1 million from the same quarter last year ("2Q2019"). The drop in revenue was mainly due to operational halt in Malaysia and Singapore, as both countries were observing the lockdown measures implemented by the local governments to curb COVID-19.

During the quarter under review, operations in China has gradually resumed since March 2020 following the easing of the country's lockdown measures. The China operations was the largest revenue contributor at RM32.1 million or 42% of total revenue in 2Q2020, representing an increase of 9% YoY from RM29.4 million in 2Q2019. Revenue from Singapore came in second at RM21.1 million or 27% of total revenue in 2Q2020, followed by Malaysia (24%), Taiwan (6%) and others (1%).

In terms of business segment, the UHP division remained the primary revenue contributor to the Group at RM62.7 million, representing 82% of total revenue, and recorded a growth of 13% YoY in 2Q2020 against RM55.6 million in 2Q2019. The growth was mainly driven by higher projects completion in China.

Meanwhile, revenue from Industrial Gases improved to RM3.1 million in 2Q2020 from RM1.2 million in 2Q2019, mainly attributable to revenue recognition from the new liquid carbon dioxide ("CO2") plant, which commenced production in October 2019.

Due to the adoption of additional standard operating procedure (SOP) across all our key markets, the Group incurred some unavoidable direct costs and faced with longer project completion timeline. These inevitable changes, coupled with lower revenue, have impacted earnings performance in 2Q2020.

The Group recorded an increase in other income which stood at RM3.2 million in 2Q2020, as compared to RM0.5 million in 2Q2019. Included in this is a wage support payout received from the Singapore government amounting to RM1.7 million as part of the Job Support Scheme (JSS) due to the COVID-19 pandemic.

Gross profit eased to RM5.2 million in 2Q2020 as compared to RM14.8 million in 2Q2019. Profit before tax ("PBT") decreased by 83% YoY to RM1.2 million in 2Q2020 from RM7.2 million in 2Q2019, with PBT margins of 1.6%. The Group's profit after tax ("PAT") dropped 87% to RM0.6 million versus RM5.0 million in 2Q2019.

(b) Current Year-to date vs. Previous Year-to date

	Revenue 6M2020 RM'000	% of total	Revenue 6M2019 RM'000	% of total
Ultra High Purity	126,221	78%	99,606	58%
Process Engineering	17,262	11%	58,640	34%
General Contracting	10,533	6%	10,718	6%
Industrial Gases	8,048	5%	2,521	1%
Total	162,064		171,485	

For the period ended 30 June 2020 ("1H2020"), the Group's revenue decreased by 5% YoY to RM162.1 million as compared to RM171.5 million in the previous year's corresponding period ("1H2019"), on the back of a lacklustre performance in 2Q2020 due to the COVID-19 pandemic.

Revenue from the UHP division recorded a growth of 27% YoY or RM26.6 million to RM126.2 million in 1H2020 from RM99.6 million in 1H2019 due to higher UHP projects completion in China. The UHP division remains as the anchor revenue contributor to the Group as it accounts for 78% of total revenue in 1H2020. Meanwhile, revenue from Process Engineering representing the second largest revenue contributor at 11%. Revenue from the Industrial Gases division improved to RM8.0 million in 1H2020 against RM2.5 million a year ago due to revenue recognition from the new liquid CO2 plant.

In terms of geographical breakdown in 1H2020, revenue contribution was led by Singapore at 44% or RM70.9 million, up 3% YoY from RM68.9 million a year ago. Revenue from China was the second largest at 28% followed by Malaysia (24%) and Taiwan (4%).

Meanwhile, the Group's earnings performance in 1H2020 was impacted by operational disruptions caused by the COVID-19 lockdown in our key revenue contributing markets (China, Malaysia, and Singapore).

In 1H2020, gross profit reduced by 43% YoY to RM16.4 million against RM28.8 million from same period last year. PBT reduced 55% YoY to RM6.1 million as compared to RM13.7 million in 1H2019. PAT reduced by 52% to RM4.7 million in 1H2020 from RM9.8 million in 1H2019.

1 Review Of Performance (Cont'd)

(c) Variation of Results Against Preceding Quarter

	Current Quarter 30.6.2020 RM'000	Immediate Preceding Quarter 31.3.2020 RM'000	Changes	
			Amount RM'000	%
Revenue	77,333	84,731	(7,398)	-9%
Operating profit	1,758	5,597	(3,839)	-69%
Profit before tax	1,198	4,902	(3,704)	-76%
Profit after tax	640	4,023	(3,383)	-84%
Profit attributable to shareholders of the company	623	4,055	(3,432)	-85%

The Group's operations in China has gradually resume in 2Q2020 after the disruptions in the preceding quarter ended 31 March 2020 ("1Q2020"). However, the Group's operations in Singapore and Malaysia were put on hold, adhering to the lockdown measures in the respective countries. Malaysia's Movement Control Order ("MCO") was implemented on 18 March 2020 while Singapore's Circuit Breaker was on 7 April 2020.

As a result, the Group's revenue decreased 9% to RM77.3 million in 2Q2020 from RM84.7 million in 1Q2020. PBT was at RM1.2 million in 2Q2020, a decrease of 76%, as compared to RM4.9 million in 1Q2020. The Group's PAT stood at RM0.6 million in 2Q2020 versus RM4.0 million in 1Q2020.

(d) Statement of Financial Position

Financial Indicators	As at 30.6.2020 Unaudited RM'000	As at 31.12.2019 Audited RM'000
Total assets	304,891	303,055
Total equity	160,130	155,534
Debt	48,438	38,691
Fixed deposits, cash & bank balances	82,812	85,068
Net cash	34,374	46,377
Debt-to-Equity	0.30	0.25

As at 30 June 2020, the Group's shareholder equity (excluding non-controlling interests) rose marginally to RM159.9 million from RM155.3 million, on the back of consecutive quarterly profit.

During the period under review, the Group's total debt grew to RM48.4 million against RM38.7 million same period last year, mainly attributed to the drawdown of term loan for the liquid CO2 plant and dry ice plant operating under the industrial gas division. Majority of the Group's debt are used for project financing purposes and capital expenditure for new industrial gas business division.

Meanwhile, the total gross cash in hand is RM82.8 million as at 30 June 2020, exceeding the total debt of RM48.4 million. As a result, the Group remained in a net cash position. Net cash per share stood at 11 sen.

2 Commentary Of Prospects

FY2020 is expected to remain challenging on the back of the on-going global pandemic outbreak. As we embrace the "new normal", we expect the preventative measures in site activities to continue in the near term, thereby may lead to longer project delivery period and additional direct costs.

Meanwhile, we are encouraged by the resumption of invitation for project tenders in our key operating markets. We have received approximately RM230 million worth of new orders in the first 6 months of 2020, majority from China, Malaysia and Singapore. Inclusive of the carried forward projects from FY2019 and new orders in FY2020, Kelington's total orderbook grew to RM488 million, of which RM324 million remains outstanding as at 30 June 2020.

In addition to that, we recently clinched a new UHP contract worth approximately RM61.8 million from the largest semiconductor foundry company in China to perform gas hook up works at Shanghai, China.

Looking ahead, we will continue to participate in project tenders and work hard to execute the outstanding orders. While our operations in China and Malaysia are reverting to full operations, we remain cautiously optimistic on the near-term outlook as our operations in Singapore is still at a relatively low activity level due to the control measures taken by the government on the pandemic.

In line with softer global economic outlook, there may be slower demand for our engineering services as large corporations are potentially delaying their capital expenditure (capex) spending.

Nevertheless, we believe the demand will gradually pick up pace as semiconductor players resume their expansion activities. We are confident of riding out this period, underpinned by our healthy replenishment of orders and backed by a strong financial position. The Group remains in a net cash position of RM34.4 million as at 30 June 2020.

Meanwhile, we are carefully monitoring the evolving operating landscape and are taking measures to minimise the impact of the outbreak, which includes optimising management resources, streamlining procurement processes, and adopting a stricter cost control.

3 Profit Forecast and Profit Guarantee

The Company did not announce any profit forecast or profit estimate for the FYE 31 December 2020 in any public document and hence this information is not applicable.

4 Profit for the Period

	Quarter ended		Year-to-date ended	
	30.6.2020 RM'000	30.6.2019 RM'000	30.6.2020 RM'000	30.6.2019 RM'000
Profit for the period is arrived at after crediting/ (charging):				
Interest income	42	78	365	137
Interest expense	(501)	(390)	(1,173)	(508)
Impairment loss on trade receivables:				
- in accordance to MFRS 9	-	(133)	-	(331)
Depreciation and amortisation	(1,296)	(579)	(2,508)	(1,143)
Equipment written off	(12)	(5)	(12)	(5)
Unrealised Foreign exchange gain/(loss)	660	254	1,980	(392)
Realised Foreign exchange gain/(loss)	112	(74)	(90)	(191)
(Loss)/gain on disposal of equipment	(1)	-	(1)	1
Writeback on impairment loss on trade receivables	-	657	249	703

Save as disclosed above, the other items as required under Appendix 9B, Part A(16) of the Bursa Listing Requirements are not applicable.

5 Taxation

	Current quarter ended 30.6.2020 RM'000	Cumulative Year to date ended 30.6.2020 RM'000
Current tax: - for the financial period	<u>558</u>	<u>1,437</u>

The effective tax rate of the Group for the current financial period under review is lower than the statutory tax rate mainly due to certain subsidiaries operating in different tax jurisdictions.

6 Corporate Proposal

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

7 Derivative Financial Instruments

There were no outstanding derivatives entered into by the Group as at the end of the quarter under review.

8 Lease Liability and Group Borrowings

(a) Lease liability

The lease liability as at 30 June 2020 versus 30 June 2019 were as follows:

	30.6.2020 RM'000	30.6.19 RM'000
Non-current	2,171	1,159
Current	704	268
Total	<u>2,875</u>	<u>1,427</u>

The hire purchase payables had been represented as 'lease liability' in the current quarter following the application of MFRS 16 Leases. The comparative information had been restated. The lease liability mainly comprises the hire purchase agreements of motor vehicles under finance leases.

8 Lease Liability and Group Borrowings (Cont'd)

(b) Group Borrowings

The borrowings as at 30 June 2020 versus 30 June 2019 were as follows. The comparative information had been restated with the application of MFRS 16 Leases.

	As At 30 June 2020					
	Current Liabilities		Non-current Liabilities		Total Borrowings	
	Currency ('000)	RM'000	Currency ('000)	RM'000	Currency ('000)	RM'000
Secured						
Term Loan	NTD8,840, RM3,033	4,319	NTD 2,000, RM28,068	28,359	NTD 10,840, RM31,101	32,678
Import Loan/Invoice financing	RMB8,571, SGD2,278, RM135	12,312		-	RMB8,571, SGD2,278, RM135	12,312
Overdraft	RM195	195		-		195
Bankers' acceptance	RM378	378		-		378
Unsecured						
Nil	-	-	-	-	-	-
		17,204		28,359		45,563
Weighted average interest rate of borrowings						4.31%
Proportion of borrowings between fixed interest rate and floating interest rate						9%:91%

The increase in borrowing during the period ended 30 June 2020 is mainly due to the drawdown of borrowings for the capital expenditure on industrial gas business division and the projects undertaken in Singapore.

	As At 30 June 2019					
	Current Liabilities		Non-current Liabilities		Total Borrowings	
	Currency ('000)	RM'000	Currency ('000)	RM'000	Currency ('000)	RM'000
Secured						
Term Loan	NTD9,860, RM709	2,034	RM2,413	2,413	NTD9,860, RM3,122	4,447
Import Loan/Invoice financing	RMB13,937, RM1,435	9,825		-	RMB13,937, RM1,435	9,825
Unsecured						
Nil	-	-	-	-	-	-
		11,859		2,413		14,272
Weighted average interest rate of borrowings						4.79%
Proportion of borrowings between fixed interest rate and floating interest rate						28%:72%

The decrease in borrowing during the period ended 30 June 2019 is mainly due to repayment of revolving credit.

9 Material Litigation

Save as disclosed below, as at the date of this quarterly report, neither KGB nor any of its subsidiaries is engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Board has no knowledge of any proceedings pending or threatened against the Company and/or its subsidiaries or of any fact likely to give rise to any proceedings, which may materially or adversely affect the financial position or business of the Group:-

(1) Updates on legal proceeding against Hui Neng Mechanical & Electrical Engineering Co. ("Hui Neng")(27518963)

On 29 June 2016, the Judge has decided in favour of Kelington Taiwan and allowed Kelington Taiwan's claim of NTD34,234,442 (equivalent to RM4,279,305) being the net amount after deducting Hui Neng's progress claim of NTD1,765,558, plus all interest thereon since 13 March 2015 until full and final settlement and that all litigation cost shall be borne by Hui Neng.

On 25 July 2016, Hui Neng has submitted an appeal to the Court.

On 14 October 2016, Hui Neng has submitted a written plea to the High Court, Taiwan. On 9 December 2016, Kelington Taiwan answered to the plea submitted by Hui Neng to the High Court.

On 19 January 2017, High court decided to call the witnesses to Court to give evidence on the next hearing. On 24 February 2017, 7 April 2017, 18 May 2017, 6 July 2017, 25 August 2017, 28 September 2017, 16 November 2017, 21 December 2017, 2 February 2018, 15 March 2018, 22 June 2018, 5 July 2018, 1 August and 29 August, High court had heard the evidences given by the witnesses and fixed the final hearing on 12 September 2018.

On 12 September 2018, High Court Taiwan has delivered its court decision and ordered that Hui Neng shall pay Kelington Taiwan the sum of NTD 29,328,814 (equivalent to RM3,946,129) plus interest of 5% per annum thereon since 10 October 2015.

The Company will announce further developments on the above matter in due course.

9 Material Litigation (Cont'd)

(2) Mutiara (FE) Pte Ltd, a subcontractor, against Kelington Engineering (S) Pte Ltd ("KESG"), a wholly-owned subsidiary of Kelington Group Berhad

On 2 March 2020, KESG has lodged with Singapore Mediation Centre a response under section 15(1) of the Building and Construction Industry Security of Payment Act ("SOP Act"), to each of the adjudication applications lodged by Mutiara (FE) Pte Ltd ("Mutiara"), a subcontractor engaged by KESG under two separate sub-contracts for a project in Singapore, for a total adjudication claims amounted to SGD4,140,325.

On 16 March 2020, KESG served a Notice of Arbitration dated 18 March 2020 as the Claimant on Mutiara to refer KESG's claims on back charges and liquidated damages in respect of Mutiara's failure, refused and/or neglected to complete the works timely and with due diligence and/or to carry out its contractual obligations under the sub contracts.

The Arbitration proceedings commenced under the Notice of Arbitration filed pursuant to the Arbitration Rules of the Singapore International Arbitration Centre.

The arbitration proceeding is commenced against Mutiara to seek, among others, the following relief:

- 1 Value of work done (including variations) by Mutiara to be assessed;
- 2 A declaration that Mutiara has breached its obligations under the sub-contracts;
- 3 An award for the sum of SGD6,375,475 being the payment that is due and payable by Mutiara to KESG as back charges and liquidated damages and scope deductions incurred to rectify the defects and/or non-compliant works, pursuant to the terms and conditions of the various purchase orders;
- 4 Losses and damages incurred by KESG arising out of Mutiara's breached of sub contracts and/or disputes in relation to the valuation of work done (including variations) by KESG and/or such other losses to be assessed; and
- 5 Interest, costs, and other relief that the arbitrator shall deemed fit.

KESG had received the following adjudication determination in for both adjudication application no. SOP/AA51 and SOP/AA52 from the Singapore Mediation Centre:-

- 1 SOP/AA51
 - i On 31 March 2020, the adjudicator determined that KESG shall pay Mutiara the sum of SGD1,051,245 (inclusive of GST) within 7 days after the service of the adjudication determination and shall bear 70% of adjudication expenses at SGD27,279
 - ii On 1 April 2020, KESG had make payment of SGD 1,051,245 to Mutiara
 - iii On 3 April 2020, KESG has filed an Adjudication Review Application ("ARA") in support of KESG application for an adjudication review of an adjudication determination.
KESG submitted that the Adjudicator had erred in law and on the facts in that he had failed to discharge his independent duty to adjudicate the claim and had:
 - a. over-valued the Mutiara's claim for original sub-contract works by SGD86,570;
 - b. over-valued the Mutiara's claim for variations by SGD371,231; and
 - c. erroneously allowed the Claimant to amend its adjudication application.
- 2 SOP/AA52
 - i On 3 April 2020, the adjudicator determined that KESG shall pay Mutiara the sum of SGD1,745,080 (inclusive of GST) within 7 days after the service of the adjudication determination and shall bear 60% of the adjudication expenses at SGD13,617.
 - ii KESG's solicitor is of the opinion that KESG shall file an ARA as well as seek a consolidation of the claims. The management is in considering and will make further announcement in due course.

(3) Commencement of adjudication proceeding between Kelington Technologies Sdn. Bhd., a wholly owned subsidiary of KGB, against JCT Industries Group Sdn. Bhd.

Kelington Technologies Sdn. Bhd. (Company No.: 562280-U") ("KTSB"), a wholly-owned subsidiary of KGB served a Notice of Adjudication to JCT Industries Group Sdn. Bhd. (Company No. 1215578-P) ("JCT") in accordance with Section 7 and 8 of Construction Industry Payment & Adjudication Act 2012 ("CIPAA") to seek following reliefs or remedies from JCT:-

- i Payment Certificates issued and unpaid - RM7,134,518.81;
- ii Variation works not certified and unpaid - RM244,800.00;
- iii Interest due to late payment – RM417,624.67;
- iv Interest on the unpaid amounts from 15 February 2020 to the date full payment is received at the rate of 7.40% per annum; and
- v Interest on the unpaid amounts from 15 February 2020 to the date full payment is received at the rate of 7.40% per annum; and
- vi All costs incurred by KTSB in referring the dispute to adjudication, including but not limited to our claim consultant's cost, the registration and administrative fee of Asian International Arbitration Centre, and the adjudicator's fee.

KTSB was appointed by JCT as the Contractor pursuant to a letter of award dated 25 April 2018 ("Contract") to construct the main factory, warehouses, TNB Sub Station and infrastructural work in Kuala Muda, Kedah Darul Aman ("Works"). The Works were completed on 30 August 2019.

As JCT had failed to make payment to KTSB, KTSB had on 18 February 2020 served a Payment Claim to JCT in accordance with Section 5 of CIPAA for the sum of RM8,226,943.48 together with interest on the sum from 14 February 2020 to the date full payment is received at the interest rate of 7.4% per annum

On 5 August 2020 and after the service of Payment Response, JCT made a further payment of RM430,000.00. Therefore, the total unpaid amount for the payment certificates issued is now reduced to RM7,134,518.81.

The Company will make the necessary announcement on further development of this matter in due course.

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
EXPLANATORY NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2020

10 Dividends Payable

On 20 May 2020, the Board of Directors of KGB proposed the payment of second interim tax-exempt dividend of 1 sen per ordinary share in respect of the FYE 31 December 2019 amounting to RM3,212,771. This was paid on 3 August 2020.

11 Earnings Per Share

The earnings per share for the quarter and cumulative year to date are computed as follow:

	Current Quarter Ended		Cumulative Year To Date Ended	
	30.6.2020	30.6.2019	30.6.2020	30.6.2019
Profit After Taxation attributable to owners of the company (RM'000)	623	5,098	4,678	9,941
Weighted average number of ordinary shares in issue ('000)	319,715	297,532	315,390	298,413
Basic Earnings Per Share (Sen)	0.20	1.71	1.48	3.33
Diluted Earnings Per Share (Sen) #	0.19	1.63	1.48	3.17

Note :

- Assuming the full exercise of 314,892 shares of Employee Shares Scheme.

12 TRADE RECEIVABLES

The ageing analysis of the Group's gross trade receivables is as follows:

	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
30.6.2020			
Not past due	25,905	(515)	25,390
Past due:			
- less than 3 months	27,538	(291)	27,247
- 3 to 6 months	1,504	(255)	1,249
- over 6 months	6,711	(184)	6,527
- over 1 year	2,768	(295)	2,473
Credit impaired	4,991	(4,991)	-
	<u>69,417</u>	<u>(6,531)</u>	<u>62,886</u>

Some of the trade receivables that are past due were not impaired based on the historical collection trends.

	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
30.6.2019			
Not past due	27,784	(218)	27,566
Past due:			
- less than 3 months	18,139	(151)	17,988
- 3 to 6 months	3,033	(156)	2,877
- over 6 months	1,463	(83)	1,380
- over 1 year	4,484	(608)	3,876
Credit impaired	5,528	(5,528)	-
	<u>60,431</u>	<u>(6,744)</u>	<u>53,687</u>

13 DISCLOSURE OF REALISED AND UNREALISED PROFITS/ (LOSSES)

	Cumulative Year to date ended 30.6.2020 RM'000	Cumulative Year to date ended 30.6.2019 RM'000
Total retained profits of KGB:		
- Realised	72,361	59,127
- Unrealised	1,888	(485)
Total group retained profits as per consolidated accounts	<u>74,249</u>	<u>58,642</u>