

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾

	Note	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		31.12.2019 RM'000	31.12.2018 RM'000	31.12.2019 RM'000	31.12.2018 RM'000
Revenue	A9	41,444	59,196	161,373	193,099
Cost of sales		(34,637)	(48,235)	(129,085)	(150,572)
Gross profit		6,807	10,961	32,288	42,527
Other income		375	416	2,393	2,810
Marketing and distribution expenses		(1,873)	(1,807)	(7,294)	(6,970)
Administrative expenses		(4,313)	(4,943)	(15,762)	(16,023)
Other operating expenses		377	(631)	(5,078)	(2,882)
Profits from operation		1,373	3,996	6,547	19,462
Finance costs		(249)	(156)	(947)	(871)
Profit before tax		1,124	3,840	5,600	18,591
Tax income/(expense)	B6	633	(77)	(2,146)	(3,779)
Profit for the financial year		1,757	3,763	3,454	14,812
Other comprehensive income, net of tax					
Actuarial gain on provision for post-employment benefits		(47)	-	(47)	9
Foreign currency translation differences for foreign subsidiaries		(35)	85	403	(10)
Total other comprehensive income/(expense)		(82)	85	356	(1)
Total comprehensive income for the financial year		1,675	3,848	3,810	14,811
Profit for the financial year attributable to:					
Owners of the Company		1,654	3,418	3,307	14,071
Non-controlling interest		103	345	147	741
Profit for the financial year		1,757	3,763	3,454	14,812
Comprehensive income for the financial year attributable to:					
Owners of the Company		1,605	3,449	3,640	14,113
Non-controlling interest		70	399	170	698
Total comprehensive income for the financial year		1,675	3,848	3,810	14,811
Earnings per share ("EPS")					
Basic (sen) ⁽²⁾	B11	0.22	0.45	0.44	1.92
Diluted (sen) ⁽²⁾	B11	0.22	0.45	0.44	1.92

QES GROUP BERHAD

Company Registration No.: 201401042911 (1119086-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾ (cont'd)

Notes:-

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statements of Comprehensive Income are detailed in Note A1 and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.
- (2) Diluted earnings per share of the Company for the individual quarter and year-to-date ended 31 December 2019 is equivalent to the basic earnings per share as the Company does not have convertible securities at the end of the reporting year.

* *For illustration purposes, basic and diluted earnings per share as at 31 December 2018 (assuming number of shares in issue of 758,308,000) is RM0.45 and RM1.86 for individual quarter and year-to-date respectively.*

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019⁽¹⁾

	UNAUDITED	AUDITED
	As at	As at
	31.12.2019	31.12.2018
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	10,382	11,076
Right-of-use assets	5,676	-
Intangible assets	6,574	5,617
Other investments	60	60
Deferred tax assets	1,686	476
	<u>24,378</u>	<u>17,229</u>
Current assets		
Inventories	20,178	15,779
Trade receivables	31,666	47,147
Other receivables	3,390	2,507
Tax recoverable	2,028	649
Short-term investment	18,202	27,198
Fixed deposits with financial institutions	18,244	20,018
Cash and bank balances	32,204	22,938
	<u>125,912</u>	<u>136,236</u>
Total assets	<u><u>150,290</u></u>	<u><u>153,465</u></u>
EQUITY AND LIABILITIES		
Equity		
Share capital	61,180	61,180
Legal reserve	25	25
Translation reserve	(831)	(1,198)
Merger deficit	(20,228)	(20,228)
Retained earnings	48,932	48,009
	<u>89,078</u>	<u>87,788</u>
Non-controlling interests	1,415	2,133
Total equity	<u>90,493</u>	<u>89,921</u>

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2019⁽¹⁾ (cont'd)

	UNAUDITED As at 31.12.2019 RM'000	AUDITED As at 31.12.2018 RM'000
Non-current liabilities		
Borrowings	-	1,580
Lease liabilities	4,175	-
Deferred tax liabilities	304	272
Provision for post-employment benefits	831	621
	<u>5,310</u>	<u>2,473</u>
Current liabilities		
Trade payables	25,972	32,585
Other payables	13,060	12,715
Borrowings	11,454	13,960
Lease liabilities	1,331	-
Deferred income	2,020	1,811
Taxation	650	-
	<u>54,487</u>	<u>61,071</u>
Total liabilities	<u>59,797</u>	<u>63,544</u>
Total equity and liabilities	<u>150,290</u>	<u>153,465</u>
Net assets per share attributable to owners of the Company (RM)	0.12	0.12

Notes:-

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statements of Financial Position are detailed in Note A1 and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.

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QES GROUP BERHAD

Company Registration No.: 201401042911 (1119086-U)

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾

	← Attributable to owners of the Group →				Distributable Retained earnings	Total	Non-controlling interests	Total equity
	Share capital	Non-distributable Merger deficit	Legal reserve	Translation reserve				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 January 2019	61,180	(20,228)	25	(1,198)	48,009	87,788	2,133	89,921
Profit for the financial year	-	-	-	-	3,307	3,307	147	3,454
Other comprehensive income								
- Foreign currency translation differences	-	-	-	367	-	367	36	403
- Remeasurement of defined benefit plan	-	-	-	-	(34)	(34)	(13)	(47)
Total comprehensive income for the financial year	-	-	-	367	3,273	3,640	170	3,810
Contributions by and distribution to owners of the Company:								
Dividends	-	-	-	-	(3,033)	(3,033)	(249)	(3,282)
Issuance of shares								
- Acquisition of a subsidiary	-	-	-	-	683	683	(639)	44
Total transaction with owners	-	-	-	-	(2,350)	(2,350)	(888)	(3,238)
At 31 December 2019	61,180	(20,228)	25	(831)	48,932	89,078	1,415	90,493

QES GROUP BERHAD

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾ (cont'd)

	← Attributable to owners of the Group →					Total	Non-controlling interests	Total equity
	Share capital	Non-distributable Merger deficit	Legal reserve	Translation reserve	Distributable Retained earnings			
	RM'000	RM'000	RM'000	RM'000	RM'000			
Balance as at 31 December 2017, as previously reported	32,592	(20,228)	-	(1,235)	35,397	46,526	1,772	48,298
Adjustment from adoption of MFRS 15	-	-	-	-	(1,439)	(1,439)	(183)	(1,622)
Restated as at 1 January 2018	32,592	(20,228)	-	(1,235)	33,958	45,087	1,589	46,676
Profit for the financial year	-	-	-	-	14,071	14,071	741	14,812
Other comprehensive income								
- Foreign currency translation differences	-	-	-	37	-	37	(47)	(10)
- Remeasurement of defined benefit plan	-	-	-	-	5	5	4	9
Total comprehensive income for the financial year	-	-	-	37	14,076	14,113	698	14,811
Contributions by and distribution to owners of the Company:								
Dividends	-	-	-	-	-	-	(304)	(304)
Legal reserve	-	-	25	-	(25)	-	-	-
Issuance of shares								
- Issuance of shares	28,588	-	-	-	-	28,588	-	28,588
- Acquisition of a subsidiary	-	-	-	-	-	-	150	150
	28,588	-	-	-	-	28,588	150	28,738
Total transaction with owners	28,588	-	25	-	(25)	28,588	(154)	28,434
At 31 December 2018	61,180	(20,228)	25	(1,198)	48,009	87,788	2,133	89,921

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾ (cont'd)

Notes:-

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statements of Changes in Equity are detailed in Note A1 and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾

	31.12.2019	31.12.2018
	RM'000	RM'000
Cash flows from operating activities		
Profit before tax	5,600	18,591
Adjustments for:		
Amortisation of intangible assets	178	136
Bad debts written off	2	-
Depreciation	3,583	2,154
Gain on disposal of property, plant and equipment	(316)	(1,190)
(Gain)/Loss on unrealised foreign exchange	(187)	207
Impairment loss on trade receivables	-	147
Interest expenses	947	871
Interest income	(1,418)	(1,194)
Inventories written back	(115)	-
Inventories written down	-	393
Inventories written off	997	-
Property, plant and equipment written off	3	5
Provision for post-employment benefits	145	155
Reversal of impairment loss on trade receivables	(210)	-
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Operating profit before working capital changes	9,209	20,275
Inventories	(5,281)	1,006
Receivables	14,278	(11,759)
Payables	(5,549)	7,638
	<hr/>	<hr/>
Cash flows generated from operations	12,657	17,160
Income tax refund	644	9
Income tax paid	(4,697)	(5,001)
Interest paid	(661)	(732)
Employee benefit paid	(24)	-
	<hr/>	<hr/>
Net cash from operating activities	7,919	11,436
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(4,057)	(5,664)
Increase in intangible assets	(1,135)	(1,187)
Interest received	1,418	1,194
Issuance of share capital	-	28,588
(Placement)/Withdrawal of fixed deposits (pledged)	(461)	4,005
Proceeds from disposal of property, plant and equipment	786	2,326
	<hr/>	<hr/>
Net cash (used in)/from investing activities	(3,449)	29,262

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UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019⁽¹⁾ (cont'd)

	31.12.2019	31.12.2018
	RM'000	RM'000
Cash flows from financing activities		
Dividend paid	(3,282)	(304)
Increase in bank facilities	(5,578)	(704)
Interest paid	(286)	(139)
Payment of lease liabilities	(1,449)	-
Repayment of finance lease liabilities	-	(577)
Repayment of term loan	-	(2,457)
Net cash used in financing activities	<u>(10,595)</u>	<u>(4,181)</u>
Net (decrease)/increase in cash and cash equivalents	(6,125)	36,517
Effect of exchange rate changes in cash and cash equivalents	487	(57)
Cash and cash equivalents at beginning of the financial year	51,297	14,837
Cash and cash equivalents at end of the financial year	<u><u>45,659</u></u>	<u><u>51,297</u></u>
Cash and cash equivalents comprise the following:		
Short-term investments	18,202	27,198
Fixed deposits with financial institutions	18,244	20,018
Cash and bank balances	32,204	22,938
Bank overdraft	(4,747)	(1,074)
	<u>63,903</u>	<u>69,080</u>
Less: Fixed deposits pledged	<u>(18,244)</u>	<u>(17,783)</u>
	<u><u>45,659</u></u>	<u><u>51,297</u></u>

Notes:-

- (1) The basis of preparation of the Unaudited Condensed Consolidated Statements of Cash Flows are detailed in Note A1 and should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134, INTERIM FINANCIAL REPORTING

A1. Basis of Preparation

The interim financial statements are unaudited and have been prepared in accordance with MFRS 134, Interim Financial Reporting and Rule 9.22 of the ACE Market Listing Requirements ("Listing Requirements") of Bursa Malaysia Securities Berhad ("Bursa Securities").

The interim financial report should be read in conjunction with the Group's audited financial statements for the financial year ended 31 December 2018 and the accompanying explanatory notes attached to this interim financial report.

A2. Summary of Significant Accounting Policies

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

At the date of authorisation of these interim financial statements, the followings MFRS, IC Interpretations and Amendments to IC Interpretations were issued but not yet effective and have not been applied by the Group:

Effective for financial period beginning on or after 1 January 2020

Amendments to MFRS 3	Business Combinations – Definition of a Business
Amendments to MFRS 9, MFRS 139 and MFRS 7	Interest rate Benchmark Reform
Amendments to MFRS 101	Presentation of Financial Statements – Definition of Material
Amendments to MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material

Effective for financial period beginning on or after 1 January 2021

MFRS 17	Insurance Contracts
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Effective date to be announced

Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
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The above pronouncements are either not relevant or do not have any material impact on the financial statements of the Group.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
 (cont'd)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134, INTERIM FINANCIAL REPORTING (cont'd)

A2. Summary of Significant Accounting Policies (cont'd)

The Group has adopted all the new and revised MFRSs and IC Interpretations that are relevant and effective for accounting periods beginning on or after 1 January 2019. The adoption of these new and revised MFRSs and IC Interpretations have not resulted in any material impact on the financial statements of the Group, except as follows:

MFRS 16 Leases

MFRS 16, which replaces MFRS 117 Leases and other related interpretations, eliminates the distinction between finance and operating leases for lessees. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Group has elected to adopt the modified retrospective approach in which the right-of-use assets are recognised at the date of initial application (1 January 2019) at an amount equal to the lease liabilities, using the Group's current incremental borrowing rate. Therefore, there is no impact on equity at the date of initial application. Comparative figures are not restated.

The following presents the expected impact upon initial application of new MFRS Framework, MFRS 16 on the financial position of the Group.

	31.12.2018 RM'000	EFFECT OF ADOPTION OF MFRS 16 RM'000	1.1.2019 RM'000
ASSETS			
Non-current assets			
Right-of-use assets	-	4,246	4,246
Current assets			
Other receivables	155	-	155
EQUITY AND LIABILITIES			
Non-current liabilities			
Lease liabilities	-	3,358	3,358
Current liabilities			
Lease liabilities	-	733	733
Total Lease liabilities	-	4,091	4,091

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134, INTERIM FINANCIAL REPORTING (cont'd)

A3. Auditors' report on preceding annual financial statements

The report of the auditors on the Group's financial statements for the financial year ended 31 December 2018 was not subject to any qualification.

A4. Seasonal or cyclical factors

The Group's business operations have not been affected by seasonal or cyclical factors.

A5. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no material unusual items affecting assets, liabilities, equity, net income or cash flows of the Group during the current financial quarter and current year-to-date under review.

A6. Material changes in estimates

There was no material change in financial estimates that could materially affect the current financial quarter under review.

A7. Debt and equity securities

There were no other issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the financial quarter under review.

A8. Dividend paid

There was no dividend paid during the current financial quarter under review.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134,
INTERIM FINANCIAL REPORTING (cont'd)

A9. Segmental information

Results for individual quarter ended 31.12.2019

	Investment Holding RM'000	Equipment RM'000	Materials & Engineering Solutions RM'000	Manufacturing RM'000	Adjustments and Eliminations RM'000	Consolidated RM'000
External revenue	-	36,198	5,097	149	-	41,444
Inter segment revenue	-	16,189	21	-	(16,210)	-
Total revenue	-	52,387	5,118	149	(16,210)	41,444

Results

Depreciation and amortisation	-	796	46	185	(5)	1,022
Other non-cash expenses/(income)	-	196	31	(1,836)	-	(1,609)
Segment profit/(loss)	(137)	1,291	(196)	(298)	464	1,124

Results for individual quarter ended 31.12.2018

	Investment Holding RM'000	Equipment RM'000	Materials & Engineering Solutions RM'000	Manufacturing RM'000	Adjustments and Eliminations RM'000	Consolidated RM'000
External revenue	-	40,359	10,777	8,060	-	59,196
Inter segment revenue	-	16,543	966	-	(17,509)	-
Total revenue	-	56,902	11,743	8,060	(17,509)	59,196

Results

Depreciation and amortisation	-	479	35	123	(5)	632
Other non-cash expenses/(income)	-	(85)	2	182	-	99
Segment profit/(loss)	(20)	1,172	888	765	1,035	3,840

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134,
INTERIM FINANCIAL REPORTING (cont'd)

A9. Segmental information (cont'd)

Results for cumulative quarter ended 31.12.2019

	Investment Holding RM'000	Equipment RM'000	Materials & Engineering Solutions RM'000	Manufacturing RM'000	Adjustments and Eliminations RM'000	Consolidated RM'000
External revenue	-	124,598	29,709	7,066	-	161,373
Inter segment revenue	-	44,622	499	-	(45,121)	-
Total revenue	-	169,220	30,208	7,066	(45,121)	161,373

Results

Depreciation and amortisation	-	3,041	182	560	(22)	3,761
Other non-cash expenses	-	587	10	225	-	822
Segment profit/(loss)	3,100	9,196	1,392	(4,322)	(3,766)	5,600

Results for cumulative quarter ended 31.12.2018

	Investment Holding RM'000	Equipment RM'000	Materials & Engineering Solutions RM'000	Manufacturing RM'000	Adjustments and Eliminations RM'000	Consolidated RM'000
External revenue	-	127,690	30,017	35,392	-	193,099
Inter segment revenue	-	54,759	2,145	-	(56,904)	-
Total revenue	-	182,449	32,162	35,392	(56,904)	193,099

Results

Depreciation and amortisation	-	1,738	132	434	(14)	2,290
Other non-cash expenses	-	364	66	270	-	700
Segment profit	4,135	12,312	1,747	6,241	(5,844)	18,591

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134,
INTERIM FINANCIAL REPORTING (cont'd)

A9. Segmental information (cont'd)

(a) Analysis of revenue by divisions

	INDIVIDUAL QUARTER				CUMULATIVE QUARTER			
	31.12.2019		31.12.2018		31.12.2019		31.12.2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Distribution Division								
Product distribution								
Equipment	27,587	66.6	31,797	53.7	87,224	54.1	89,819	46.5
Materials & Engineering Solutions	4,294	10.4	9,776	16.5	26,096	16.2	26,491	13.7
Services & supply of spare parts								
Equipment	8,611	20.7	8,562	14.5	37,374	23.1	37,871	19.6
Materials & Engineering Solutions	803	1.9	1,001	1.7	3,613	2.2	3,526	1.8
Sub-total	41,295	99.6	51,136	86.4	154,307	95.6	157,707	81.6
Manufacturing Division								
Manufacturing	149	0.4	8,060	13.6	7,066	4.4	35,392	18.4
Sub-total	149	0.4	8,060	13.6	7,066	4.4	35,392	18.4
Total	41,444	100.0	59,196	100.0	161,373	100.0	193,099	100.0

(b) Analysis of revenue by geographical location

	INDIVIDUAL QUARTER				CUMULATIVE QUARTER			
	31.12.2019		31.12.2018		31.12.2019		31.12.2018	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia	12,926	31.2	16,425	27.8	60,412	37.4	56,160	29.1
ASEAN (excluding Malaysia)								
Singapore	10,153	24.5	9,589	16.2	22,894	14.2	27,953	14.5
Vietnam	6,355	15.3	7,255	12.3	22,523	14.0	22,869	11.8
Thailand	4,151	10.0	3,283	5.5	20,503	12.7	17,100	8.9
Philippines	* (729)	(1.7)	5,452	9.2	13,757	8.5	32,141	16.6
Indonesia	4,455	10.7	5,392	9.1	12,539	7.8	15,522	8.0
Others	1,865	4.5	6,532	11.0	5,255	3.3	14,593	7.6
China	2,268	5.5	5,268	8.9	3,490	2.1	6,761	3.5
Total	41,444	100.0	59,196	100.0	161,373	100.0	193,099	100.0

* Further explanation in B2.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

A. EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD ("MFRS") 134, INTERIM FINANCIAL REPORTING (cont'd)

A10. Valuation of property, plant and equipment

There was no valuation of the property, plant and equipment in the current financial quarter under review.

A11. Material events subsequent to the end of the current financial quarter

There were no subsequent material events as at the date of this report.

A12. Changes in the composition of the Group

Save as that disclosed below, there were no other changes to the composition of the Group during the current quarter under review.

The application to Companies Commission of Malaysia ("CCM") to strike off the Group's dormant subsidiary companies namely QES (Kuala Lumpur) Sdn. Bhd. and VMX Technology Sdn. Bhd. from the register has been successful. This has been gazetted by CCM following the publication of the Notice of Striking Off pursuant to Section 551(3) of the Companies Act 2016 in the Gazette on 17 October 2019.

A13. Contingent assets or contingent liabilities

The Group has no contingent assets and contingent liabilities as at the date of this report.

A14. Capital commitments

31.12.2019
RM'000
(Unaudited)

Commitment not provided for in the financial statements is as follows:

Lease commitment

- not later than one year	122
- between two to five years	<u>11</u>
Total	<u><u>133</u></u>

A15. Related party transactions

There were no related party transactions during the current financial quarter under review.

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QES GROUP BERHAD

Company Registration No.: 201401042911 (1119086-U)

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)**B. EXPLANATORY NOTES PURSUANT TO ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD****B1. Review of performance****(i) Results for current quarter**

	INDIVIDUAL QUARTER		Changes RM'000	Changes %
	31.12.2019 RM'000	31.12.2018 RM'000		
Revenue	41,444	59,196	(17,752)	(30.0)
Profit before tax	1,124	3,840	(2,716)	(70.7)

The Group recorded revenue of RM41.44 million for the current quarter under review against RM59.20 million in the corresponding quarter last year, representing a decrease of 30.0%. The decrease was due to a drop in sales by RM9.84 million from the distribution division and RM7.91 million from the manufacturing division.

The decrease in revenue was mainly due to a decline in sales volume caused by the slowdown in the global economy this year as compared to the preceding year. The manufacturing division was especially affected by the overall slowdown in the semiconductor industry worldwide as our manufactured products are primarily used by semiconductor companies.

The Group registered a profit before tax ("PBT") of RM1.12 million against PBT of RM3.84 million in the corresponding quarter last year. The lower PBT recorded was mainly due to overall lower revenue for the current financial quarter under review.

(ii) Results for financial year-to-date

	CUMULATIVE QUARTER		Changes RM'000	Changes %
	31.12.2019 RM'000	31.12.2018 RM'000		
Revenue	161,373	193,099	(31,726)	(16.4)
Profit before tax	5,600	18,591	(12,991)	(69.9)

The Group recorded revenue of RM161.37 million in the period ended 31 December 2019, marking a decrease by 16.4% as compared to the preceding year ended 31 December 2018. The decrease was due to a drop in sales from the manufacturing division by RM28.33 million and the marginal decrease in distribution division by RM3.40 million.

The decrease in revenue for the manufacturing division was mainly due to less deliveries of Optical Inspection System due to the overall slowdown in the semiconductor industry worldwide. The decrease in revenue for the distribution division was mainly impacted by the decreased in revenue from services and supply of spare parts as compared to the preceding year.

The profit before tax decreased from RM18.59 million to RM5.60 million as compared to the preceding year. The lower PBT recorded was mainly due to overall lower revenue recorded for the current financial year under review.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

B. EXPLANATORY NOTES PURSUANT TO ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (cont'd)

B2. Comparison with immediate preceding quarter's results and comments on material changes in PBT

	Current Quarter 31.12.2019 RM'000	Preceding Quarter 30.09.2019 RM'000	Changes RM'000	Changes %
Revenue	41,444	39,536	1,908	4.8
Profit before tax	1,124	2,613	(1,489)	(57.0)

The Group recorded revenue of RM41.44 million for the current quarter under review against RM39.54 million in the immediate preceding quarter, representing a marginal increase of 4.8%. The increase in revenue by RM1.91 million against the immediate preceding quarter was mainly due to the increase in revenue from the distribution division by RM4.52 million. However, the increase was partially offset by a decrease in sales from the manufacturing division by RM2.61 million. For the current quarter under review, the manufacturing division recorded a revenue of RM0.15 million due to the sales returns amounting to RM3.64 million which also resulted in negative revenue for Philippines. This sales returns reversed the impairment which the Group had made provision of RM1.80 million during the second quarter of the financial year ending 2019.

The Group registered a PBT of RM1.12 million against PBT of RM2.61 million in the immediate preceding quarter despite an increase in revenue is due to the above mentioned impact on the manufacturing division. The Group also recognised higher operating expenses (OPEX) contributed by the increase in exhibition and trade promotion participation expenses, travelling expenses and foreign exchange fluctuations despite the reversal of impairment loss on trade receivables.

B3. Prospects and outlook

Despite the weak economic growth which impacted the manufacturing activity and global trade in FY 2019, the Group is cautiously optimistic on the business prospect for FY 2020. Going forward into the new financial year, the Group is prepared for another challenging year ahead, particularly in the first quarter of FY 2020 due to the recent outbreak of the COVID-19. However, we anticipate the semiconductor industry will come back strongly due to the inadvertent rolling out of 5G across all nations in the near future. QES Group will be ready with the necessary resources to participate in the upcoming growth of automated inspection and handling equipment generated by 5G, Internet of things ("IoT") and artificial intelligence ("AI") related requirements.

B4. Profit forecast and profit guarantee

The Group did not issue any profit forecast or profit guarantee during the financial quarter under review and the financial year-to-date.

B5. Status of corporate proposals

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

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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
(cont'd)

B. EXPLANATORY NOTES PURSUANT TO ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (cont'd)

B6. Income tax expenses

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	RM'000	RM'000	RM'000	RM'000
Current tax expense	565	366	3,273	4,212
Deferred tax expense	(1,198)	(289)	(1,127)	(433)
Total tax expense/(income)	(633)	77	2,146	3,779

Notes:-

- (1) The Group's effective tax rate for the cumulative quarter was higher than the statutory income tax rate of 24% due to adjustment on certain expenses not deductible for tax purposes such as depreciation, amortisation of intangible assets, allowance for inventories and impairment losses on trade receivables.
- (2) Current quarter effective tax rate improved mainly due to the recognition of tax losses from manufacturing division which suffered huge losses in the current financial year. Deferred tax asset of RM 0.81 million is recognised as the Group consider it probable that future taxable profits will be available against which it can be utilised.
- (3) Tax expenses is recognised based on management's best estimate.

B7. Utilisation of proceeds from the IPO

The gross proceeds arising from the IPO amounting to RM28.82 million was intended to be utilised in the following manner:-

Purposes	Proposed	Actual	Balance	Deviation	Estimated timeframe for utilisation
	Utilisation	Utilisation			
	RM'000	RM'000	RM'000	RM'000	
(i) Development of 3 key products	4,850	2,776	2,074	-	Within 24 months
(ii) General working capital requirements	3,250	2,727	523	-	Within 24 months
(iii) Repayment of bank borrowings	7,000	7,000	-	-	Within 3 months
(iv) Capital expenditure	10,716	5,975	4,741	-	Within 24 months
(v) Estimated listing expenses	3,000	3,000	-	-	Within 1 month
	<u>28,816</u>	<u>21,478</u>	<u>7,338</u>	<u>-</u>	

The utilisation of proceeds as disclosed above should be read in conjunction with the Prospectus of the Company dated 8 February 2018.

As at the date of this report, save for approximately RM21.48 million that has been utilised for various purposes as disclosed above, the remaining IPO proceeds has not been utilised as at 31 December 2019.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
 (cont'd)

B. EXPLANATORY NOTES PURSUANT TO ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (cont'd)

B8. Group borrowings

	UNAUDITED	AUDITED
	As at	As at
	31.12.2019	31.12.2018
	RM'000	RM'000
Current:		
Bank overdrafts	4,747	1,074
Bankers acceptance	583	612
Trust receipts	5,324	10,886
Revolving loan	800	992
Finance lease liabilities	-	396
	<u>11,454</u>	<u>13,960</u>
Non-current:		
Finance lease liabilities	-	1,580
	<u>-</u>	<u>1,580</u>
Total		
Bank overdrafts	4,747	1,074
Bankers acceptance	583	612
Trust receipts	5,324	10,886
Revolving loan	800	992
Finance lease liabilities	-	1,976
	<u>11,454</u>	<u>15,540</u>

The Group's borrowings were denominated in MYR, except for approximately RM3.49 million (USD0.85 million), RM1.33 million (JPY35.32 million) and RM0.47 million (GBP0.09 million) of the above borrowings were denominated in USD, JPY and GBP respectively.

B9. Material litigation

There were no material litigations pending on the date of this announcement.

B10. Dividend

The Board of Directors does not recommend any dividend for the current financial quarter under review.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
 (cont'd)

B. EXPLANATORY NOTES PURSUANT TO ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (cont'd)

B11. Earnings per share ("EPS")

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Profit for the period attributable to owners of the Company (RM'000)	1,654	3,418	3,307	14,071
Weighted average number of shares ('000)	758,308	758,308	758,308	732,131
Basic EPS (sen)	0.22	0.45	0.44	1.92
Diluted EPS (sen) ⁽¹⁾	0.22	0.45	0.44	1.92

Notes:-

- (1) Diluted earnings per share of the Company for the individual quarter and year-to-date ended 31 December 2019 is equivalent to the basic earnings per share as the Company does not have any outstanding convertible securities at the end of the reporting year.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE FOURTH QUARTER ENDED 31 DECEMBER 2019
 (cont'd)

B. EXPLANATORY NOTES PURSUANT TO ACE MARKET LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD (cont'd)

B12. Notes to the Statements of Comprehensive Income

Profit before taxation is arrived at after charging/(crediting):-

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	31.12.2019 RM'000	31.12.2018 RM'000	31.12.2019 RM'000	31.12.2018 RM'000
Amortisation of intangible assets	88	32	178	136
Bad debts written off	2	-	2	-
Depreciation	934	600	3,583	2,154
Gain on disposal of property, plant and equipment	(2)	(110)	(316)	(1,190)
Impairment loss on trade receivables	-	-	-	147
Interest expenses	249	156	947	871
Interest income	(306)	(334)	(1,418)	(1,194)
Inventories written back	-	-	(115)	-
Inventories written down	322	104	-	393
Inventories written off	11	-	997	-
Loss/(Gain) on foreign exchange				
- realised	229	57	569	(516)
- unrealised	222	(6)	(187)	207
Property, plant and equipment written off	-	-	3	5
Provision for post-employment benefits	36	68	145	155
Rental of premises and motor vehicles	79	386	400	1,443
Reversal of impairment loss on trade receivables	(1,980)	(73)	(210)	-

Save as disclosed above, other disclosure items pursuant to Appendix 9B Note 16 of the Listing Requirements of Bursa Securities are not applicable.

BY ORDER OF THE BOARD

Andrea Huang Jia Mei
 Company Secretary
 24 February 2020