GLOBALTEC FORMATION BERHAD

(Incorporated in Malaysia)

Company No: 953031-A

FIRST QUARTERLY REPORT
FOR THE FINANCIAL YEAR ENDING 30 JUNE 2020

Contents	**Page**

Condensed unaudited consolidated statement of profit or loss and other comprehensive income for the financial period ended 30 September 2019

	Current quarter 30.9.2019 RM'000	Preceding year corresponding quarter 30.9.2018 RM'000	Current period 30.9.2019 RM'000	Preceding year corresponding period 30.9.2018 RM'000
Revenue	52,966	54,643	52,966	54,643
Cost of sales	(41,409)	(43,162)	(41,409)	(43,162)
Gross profit	11,557	11,481	11,557	11,481
Other operating expenses	(8,957)	(10,048)	(8,957)	(10,048)
Other operating income	110	43	110	43
Results from operating activities	2,710	1,476	2,710	1,476
Finance income	418	276	418	276
Finance costs	(333)	(350)	(333)	(350)
Profit before tax	2,795	1,402	2,795	1,402
Tax expense	(977)	(831)	(977)	(831)
Profit for the period	1,818	571	1,818	571
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	1,366	2,744	1,366	2,744
Total comprehensive income for the period	3,184	3,315	3,184	3,315
Profit/(Loss) attributable to:				
Owners of the Company	1,999	956	1,999	956
Non-controlling interests	(181)	(385)	(181)	(385)
Profit for the period	1,818	571	1,818	571
Total comprehensive income attributable to:				
Owners of the Company	2,944	2,584	2,944	2,584
Non-controlling interests	240	731	240	731
Total comprehensive income for the period	3,184	3,315	3,184	3,315
Basic earnings per ordinary share (sen)	0.743	0.355	0.743	0.355
Diluted earnings per ordinary share (sen)	N/A	N/A	N/A	N/A

(The condensed unaudited consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the Annual Financial Report for the year ended 30 June 2019)

Condensed unaudited consolidated statement of financial position as at 30 September 2019

	As at 30.9.2019 RM'000	Audited 30.6.2019 RM'000
Non-current assets		
Property, plant and equipment	109,575	110,324
Exploration and evaluation assets	101,593	99,339
Intangible assets	27,608	27,706
Deferred tax assets	773	769
Total non-current assets	239,549	238,138
Current assets		
Biological assets	39	172
Receivables, deposits and prepayments	45,286	38,213
Inventories	23,695	28,368
Contract assets	7,372	7,631
Other investments	178	185
Current tax assets	1,352	1,373
Fixed deposits with maturity more than 3 months but less than 12 months	6,000	6,000
Cash and cash equivalents	45,401	40,750
Total current assets	129,323	122,692
TOTAL ASSETS	368,872	360,830
Equity attributable to owners of the Company		
Share capital	643,647	643,647
Business combination deficit	(157,064)	(157,064)
Reserves	(250,322)	(253,266)
	236,261	233,317
Non-controlling interests	39,934	39,694
Total equity	276,195	273,011
Long term and deferred liabilities		
Borrowings	6,495	6,562
Deferred tax liabilities	5,184	5,206
Total long term and deferred liabilities	11,679	11,768
Current liabilities		
Payables and accruals	39,863	35,080
Tax liabilities	572	361
Provisions	25,050	25,660
Borrowings	15,513	14,950
Total current liabilities	80,998	76,051
Total liabilities	92,677	87,819
TOTAL EQUITY AND LIABILITIES	368,872	360,830
Net assets per share attributable to owners of the Company (RM)	0.878	0.867

(The condensed unaudited consolidated statement of financial position should be read in conjunction with the Annual Financial Report for the year ended 30 June 2019)

Condensed unaudited consolidated statement of changes in equity for the financial period ended 30 September 2019

	Attributable to owners of the Company							
	Share capital	**Foreign currency translation reserve**	**Fair value adjustment reserve**	**Business combination deficit**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 July 2019	643,647	(553)	(44,479)	(157,064)	(208,233)	233,317	39,694	273,011
Total comprehensive income for the period	-	945	-	-	1,999	2,944	240	3,184
At 30 September 2019	643,647	392	(44,479)	(157,064)	(206,234)	236,261	39,934	276,195

	Attributable to owners of the Company									
	Share capital	**Share premium**	**Capital reserve**	**Foreign currency translation reserve**	**Fair value adjustment reserve**	**Business combination deficit**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
At 1 July 2018										
- As previously stated	538,174	105,473	6,041	(3,938)	(44,479)	(157,064)	(197,827)	246,380	62,834	309,214
- Effects of adoption of *MFRS 15*	-	-	-	-	-	-	1,608	1,608	-	1,608
- As restated	538,174	105,473	6,041	(3,938)	(44,479)	(157,064)	(196,219)	247,988	62,834	310,822
Total comprehensive income for the period	-	-	-	1,628	-	-	956	2,584	731	3,315
At 30 September 2018	538,174	105,473	6,041	(2,310)	(44,479)	(157,064)	(195,263)	250,572	63,565	314,137

(The condensed unaudited consolidated statement of changes in equity should be read in conjunction with the Annual Financial Report for the year ended 30 June 2019)

Condensed unaudited consolidated statement of cash flows for the financial period ended 30 September 2019

	Current period 30.9.2019 RM'000	Preceding year corresponding period 30.9.2018 RM'000
Cash flows from operating activities		
Profit before tax from:	2,795	1,402
Adjustments for:		
Amortisation of customer relationships	99	99
Amortisation of development costs	-	15
Changes in fair value of other investments	8	10
Depreciation	2,579	2,432
Fair value loss on biological assets	133	60
Finance costs	333	350
Finance income	(418)	(276)
Gain on disposal of property, plant and equipment	(10)	(13)
Provision for warranties (net)	45	311
Unrealised foreign exchange loss/(gain)	23	(78)
Operating profit before working capital changes	5,587	4,314
Changes in working capital:		
Inventories	4,758	1,179
Contract assets	260	-
Receivables, deposits and prepayments	(7,185)	(9,908)
Payables and accruals	4,189	3,999
Cash generated from/(used in) operations	7,609	(416)
Warranties paid	(45)	(52)
Taxation paid (net)	(768)	(920)
Net cash generated from/(used in) operating activities	6,796	(1,388)

Condensed unaudited consolidated statement of cash flows for the financial period ended 30 September 2019 (continued)

	Current period 30.9.2019 RM'000	Preceding year corresponding period 30.9.2018 RM'000
Cash flows from investing activities		
Exploration and evaluation expenditure incurred	(699)	(1,772)
Interest received	418	276
Proceeds from disposal of property, plant and equipment	10	13
Purchase of property, plant and equipment	(417)	(2,906)
Net cash used in investing activities	(688)	(4,389)
Cash flows from financing activities		
Interest paid	(333)	(350)
Repayment of bank borrowings – net	(638)	(666)
Net cash used in financing activities	(971)	(1,016)
Net increase/(decrease) in cash and cash equivalents	5,137	(6,793)
Effect of foreign exchange fluctuation on cash and cash equivalents	(308)	1,194
Cash and cash equivalents at beginning of year	39,704	55,389
Cash and cash equivalents at end of period	44,533	49,790

	Current period 30.9.2019 RM'000	Preceding year corresponding period 30.9.2018 RM'000
Cash and bank balances	16,389	21,648
Short term placement	18,746	19,592
Deposits with licensed banks	10,266	8,550
	45,401	49,790
Less:		
Bank overdraft	(868)	-
	44,533	49,790

(The condensed unaudited consolidated statement of cash flows should be read in conjunction with the Annual Financial Report for the year ended 30 June 2019)

NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of preparation

This interim financial report of Globaltec Formation Berhad ("GFB" or the "Company") and its subsidiaries ("Group") is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standard ("MFRS") 134, *Interim Financial Reporting* and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") ("Listing Requirements").

A2. Significant Accounting Policies

Save as disclosed below, the significant accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 30 June 2019.

The Group had during the financial year inter-alia adopted MFRS 16, *Leases* (which was effective for annual periods beginning on or after 1 January 2019). The Group had applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to accumulated losses at 1 July 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under MFRS 117, *Leases* and related interpretations.

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short term leases and leases of low-value items. Lessor accounting remains similar to the previous accounting standard which continues to be classified as finance or operating lease.

At 1 July 2019, the Group has recognised lease liabilities of RM791,000 with a corresponding right-of-use assets of equivalent amount. There is no impact to the Group's existing finance leases.

The Group has not adopted the following standards that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Group.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business* Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group plan to apply the abovementioned accounting standards, amendments and interpretations from the annual period beginning on 1 July 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020.

The accounting standard that is effective for annual period beginning on or after 1 January 2021 is currently not applicable to the Group.

A3. Qualified audit report

The preceding annual audited financial statements of the Group were reported on without any qualification.

A4. Unusual items affecting assets, liabilities, equity, net income or cash flows

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the current quarter and financial period.

A5. Seasonal and cyclical factors

There were no material seasonal or cyclical factors affecting the income and performance of the Group.

A6. Changes in estimates

There were no changes in the estimates of amounts which give a material effect for the financial period ended 30 September 2019.

A7. Dividends

The Board does not recommend any dividend for the financial period ended 30 September 2019.

A8. Valuation of property, plant and equipment

The Group measures and records its land and buildings at cost and does not revalue them.

A9. Material events subsequent to the period end

There were no material events subsequent to the financial period end.

A10. Changes in composition of the Group

There were no changes in the Group structure for the financial period and up to the date of this report.

A11. Capital commitments

Contracted but not provided for capital commitments as at 30 September 2019 were as follows:

	RM'000
In respect of:	
- Property, plant and equipment	2,448
- Lease agreements	1,092
Total	3,540

A12. Contingent liabilities/assets

As at 30 September 2019, the Company had executed corporate guarantees in favour of licensed financial institutions of up to a limit of RM35.2 million for credit facilities granted to subsidiaries. Out of the total banking facilities secured by corporate guarantees by the Company, a total of RM18.6 million was outstanding at the period end.

A13. Debt and equity securities

There were no issuances, cancellations, share splits, repurchases and repayments of the Company's debt or equity securities for the financial period ended 30 September 2019.

A14. Segmental information

Analysis by business segments being the primary basis of the Group's segmental reporting for the financial period ended 30 September 2019 is as follows:

	Integrated manufacturing services RM'000	Energy RM'000	Resources RM'000	Investment holding RM'000	Consolidation adjustments RM'000	Consolidated RM'000
Segment revenue						
Revenue from external customers	51,796	-	1,170	-	-	52,966
Inter-segment revenue	-	-	-	513	(513)	-
Total revenue	51,796	-	1,170	513		52,966
Segment profit/(loss)	4,513	(686)	(827)	(205)	-	2,795
Segment assets	176,533	109,803	50,833	73,627	(69,532)	341,264
Customer relationships						5,426
Goodwill on consolidation						22,182
Consolidated total assets						368,872

OTHER NOTES PURSUANT TO BURSA MALAYSIA'S MAIN MARKET LISTING REQUIREMENTS: CHAPTER 9, APPENDIX 9B, PART A

B1. Review of performance

The Integrated Manufacturing Services ("IMS") segment comprises the following divisions:

i) precision machining, stamping and tooling ("PMST"); and
ii) automotive components design and manufacturing ("Automotive").

The Resources segment is principally involved in the harvesting and selling of fresh fruit bunches of oil palm ("FFB") whereas the Energy segment is principally involved in the exploration and production of oil and gas but has not commenced commercial production yet.

The Group's revenue decreased from RM54.6 million for the preceding year corresponding quarter to RM53.0 million for the current quarter. This was due to a decline in revenue registered by the IMS and Resources segments. The IMS segment recorded lower revenue due to lower demand faced by the Automotive division which chalked up a decrease in revenue of RM2.5 million. The lower demand for the current quarter relative to the preceding year corresponding quarter is attributable to a spike in sale of vehicles (following the abolishment of Goods and Services Tax) in the preceding year corresponding quarter. This decline was partially offset by the increase of RM1.1 million in PMST division's revenue on the back of its customers ramping up sales. The Resources segment registered a decrease in its revenue of RM0.2 million due to a decrease in FFB prices and FFB production.

Net profit for the current quarter increased from RM1.0 million in the preceding year corresponding quarter to RM2.0 million due mainly to better product mix from the IMS segment and lower operating expenses of the Energy and Investment Holding segments respectively. The increase in IMS segment's net profit was achieved mainly on the back of higher revenue and better product mix from the PMST division. The Resources segment registered a decline in its net results of about RM0.3 million as a result of lower revenue and higher fair value loss on biological assets.

The Group recorded a net cash inflow of RM5.1 million on the back of cash inflows from operating activities of RM6.8 million. The cash and cash equivalents as at period end stood at RM44.5 million. Comparing quarter end with the end of previous financial year, the Group's net assets per share has increased from RM0.867 to RM0.878, whilst the gearing has remained the same at 0.09 times but the current ratio has decreased to 1.60 times from 1.61 times.

B2. Material changes from the preceding quarter

Comparing quarter on quarter, the Group's revenue increased from RM48.5 million to RM53.0 million due to an increase in both the IMS and Resources segments' revenue. The increase in IMS segment's revenue of RM4.4 million arose mainly from better demand. The marginal increase in the revenue from the Resources segment of RM46,000 was due to an increase in both the FFB production and FFB prices.

Included in the previous quarter was the Group's effective share of the impairment loss/provision on exploration assets for its production sharing contracts in Indonesia of RM23.8 million and goodwill and prepayment written off totalling RM1.3 million. On a normalised basis (after excluding the above items), the Group recorded a turnaround from a net loss of RM1.1 million in the previous quarter to a net profit of RM2.0 million for the current quarter due mainly to an increase in the net profit generated by the IMS segment and lower operating expenses of the Energy and Investment Holding segments respectively. The IMS segment recorded an increase of RM2.5 million in its net profit in tandem with the increase in its revenue and better product mix. Despite the increase (albeit marginal) in revenue, the Resources segment registered an increase of RM0.1 million in its net losses due mainly to the increase in fair value loss on biological assets.

B3. Prospects

The PMA division's new factory facility of 60,000 square feet at Penang Science Park is ready and the PMA division expects to gradually increase its capacity and revenue over time.

With the expansion plans of the PMST division, the Group can expect increased positive growth to its revenue and bottom line in years to come.

The Automotive division will continue to leverage on its collaboration with Ningbo Auto Components Industry Association and its members to extend their relationship with Proton/Geely in Malaysia and expand into the ASEAN market. In addition, with the diversification to other car makers the Automotive division is hopeful for a better performance in the ensuing years.

The Energy Segment, under NuEnergy Gas Limited ("NuEnergy"), has submitted the first coal bed methane ("CBM") Plan of Development ("POD I") for the Tanjung Enim Production Sharing Contract ("PSC") in Indonesia. The proposed POD I plans for the development of 209 wells in the identified areas of the Tanjung Enim PSC covering about $33km^2$ (or 13% of the total Tanjung Enim PSC acreage), where the gas will be transported through a 24km new pipeline to be built as part of this POD I to the north of the Tanjung Enim PSC, linking to the nearby existing infrastructures, including connecting to PT Pertamina Gas's transmission pipeline situated in the north of the Tanjung Enim PSC that has greater market access and flexibility to the Palembang area. The Indonesia Research and Development Center for Oil and Gas Technology has confirmed and certified reserves totaling ~164.89 billion standard cubic feet (bscf) of gas. The proposed POD I is currently pending the approval from the Government of Indonesia.

Nevertheless, development and commercialisation of the gas reserves will take time before the Group can reap the returns from it.

B4. Financial Forecast and Profit Guarantee

Not applicable.

B5. Corporate proposals

There were no material corporate proposals announced but not completed within 7 days from the date of issue of this report.

B6. Taxation

The tax expense for the current quarter and financial period are as follows:

	Current quarter 30.9.2019 RM'000
Income tax expense	
Malaysia -current year	528
Overseas – current	471
	999
Deferred tax expense	
Malaysia - current year	(22)
Total tax expense	977

The effective tax rate of the Group for the current quarter and current period is higher than the statutory tax rate due mainly to the losses incurred by the Energy segment (which has yet to commence commercial production) and the Resources and Investment Holding segments.

B7. Status of memorandum of understandings

i) AutoV Corporation Sdn Bhd ("AutoV"), a subsidiary of the Company has on 28 July 2017 entered into a memorandum of understanding for strategic alliance with Ningbo Auto Components Industry Association ("Ningbo AIA") which records the principal and mutual understanding whereby Ningbo AIA shall assist to develop and secure business collaborations between its members and AutoV group of companies. Discussions are still ongoing as at the date of this report.

ii) NuEnergy had as at end September 2017 executed a Memorandum of Understanding with PT Pertamina Gas ("Pertagas") in September 2017 to explore the gas supply from the Tanjung Enim PSC. NuEnergy is currently in an on-going discussion with Pertagas to finalise the mechanism on gas delivery and subsequently progress to negotiate the commercial terms of gas sale and supply.

B8. Borrowings

The Group's borrowings as at 30 September 2019 were all secured. The borrowings denominated in foreign currency and RM as at 30 September 2019 was as follows:

	RM'000
Foreign Currency:	
- IDR1,457,453,221@ RM0.0295/IDR100	430
RM	21,578
Total Group Borrowings	22,008

Foreign currency:

IDR Indonesian Rupiah

B9. Material litigation

There is no material litigation as at the date of this report.

B10. Earnings per share

<u>Basic earnings per share</u>

The basic earnings per share of the Group for the current quarter and current period was computed as follows:

Profit attributable to owners of the Company (RM'000)	1,999
Weighted average number of ordinary shares ('000)	269,087
Basic earnings per share (sen)	0.743

<u>Diluted earnings per share</u>

Diluted earnings per share for the current quarter and financial period are not applicable as the exercise price of the Company's warrants of RM0.72 is higher than the market price of the Company's shares as at period end.

B11. Exploration and development expenditure/activities

Below is a table showing the exploration assets/expenditure incurred during the period.

	RM'000
Carrying amount	
At 1 July 2019	99,339
Effect of movements in exchange rates	1,555
Additions	699
At 30 September 2019	101,593

During the quarter, the Energy segment's operations were mainly focused on efforts to secure approval of Tanjung Enim POD I.

The Energy segment has received the notice of termination of the Bontang Bengalon PSC from SKK Migas on 23 August 2019. With this termination, the Energy segment is required to immediately relinquish the contract area and fulfil the remaining obligations under the PSC. In response to this termination, the Energy segment has submitted a proposal to transfer the remaining exploration firm commitment of the Bontang Bengalon PSC into an open area on 27 August 2019.

B12. Notes to the statement of profit or loss and other comprehensive income

Other than interest income and finance costs, included in the statement of profit or loss and other comprehensive income are the following credits/(charges):

	Current quarter 30.9.2019 RM'000	Preceding year corresponding quarter 30.9.2018 RM'000	Current period 30.9.2019 RM'000	Preceding year corresponding period 30.9.2018 RM'000
Amortisation of customer relationships	(99)	(99)	(99)	(99)
Amortisation of development costs	-	(15)	-	(15)
Changes in fair value of other investments	(8)	(10)	(8)	(10)
Depreciation	(2,579)	(2,432)	(2,579)	(2,432)
Fair value changes on biological assets	(133)	(60)	(133)	(60)
Foreign exchange gain	192	44	192	44
Gain on disposal of property plant and equipment	10	13	10	13
Provision for warranties (net)	(45)	(311)	(45)	(311)
Rental income	3	3	3	3