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PENTAMASTER INTERNATIONAL LIMITED

檳傑科達國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1665)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

The board (the “Board”) of directors (the “Directors”) of Pentamaster International Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, “we”, “us”, “our” or the “Group”) for the six months ended 30 June 2018 (“1H2018”), together with the comparative figures for the six months ended 30 June 2017 (“1H2017”) (*expressed in Ringgit Malaysia “MYR”*). Such information should be read in conjunction with the prospectus of the Company dated 29 December 2017 (the “Prospectus”).

The interim results of the Group is released in conjunction with the quarterly results announcement of Pentamaster Corporation Berhad, the holding company of the Company in Malaysia pursuant to the Listing Requirements of the Main Market of the Bursa Malaysia Securities Berhad.

FINANCIAL HIGHLIGHTS

For the six months ended 30 June	2018	2017
	(Unaudited)	(Unaudited)
	MYR'000	MYR'000
Revenue	199,370	96,631
Gross Profit	63,605	29,261
Profit for the period	45,558	18,818
Adjusted profit for the period	47,205	19,065
Earnings per share (sen)		
Basic and diluted	2.85	1.26

- Revenue of the Group was MYR199.4 million, representing an increase of 106.3% over the corresponding period last year.
- Adjusted profit for the period stood at MYR47.2 million, representing an increase of 147.6% over the corresponding period last year.
- Cash and bank deposits of MYR185.9 million as at 30 June 2018 against MYR81.6 million as at 31 December 2017.
- Order book of approximately MYR235.7 million based on purchase orders secured from our customers that is expected to be delivered in the remaining months of 2018 and the first half of 2019.
- The Board does not recommend any interim dividend in respect of the six months ended 30 June 2018.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS AND SIX MONTHS ENDED 30 JUNE 2018

		Individual Quarter 3 Months Ended		Cumulative Year Financial Period Ended	
		30/6/2018 (Unaudited) MYR'000	30/6/2017 (Unaudited) MYR'000	30/6/2018 (Unaudited) MYR'000	30/6/2017 (Unaudited) MYR'000
	<i>Notes</i>				
Revenue	5	101,323	50,788	199,370	96,631
Cost of goods sold		<u>(67,251)</u>	<u>(34,559)</u>	<u>(135,765)</u>	<u>(67,370)</u>
Gross profit		34,072	16,229	63,605	29,261
Other income	6	15,433	878	21,348	4,674
Administrative expenses		(22,390)	(4,946)	(34,943)	(11,023)
Distribution costs		(1,465)	(1,062)	(1,594)	(1,840)
Other operating expenses		(39)	(7)	(93)	(8)
Operating profit		25,611	11,092	48,323	21,064
Finance costs		(48)	(3)	(97)	(7)
Share of results of an associate		(19)	(16)	(38)	(16)
Profit before taxation	7	25,544	11,073	48,188	21,041
Taxation	8	(1,196)	(1,377)	(2,630)	(2,223)
Profit and total comprehensive income for the period		<u>24,348</u>	<u>9,696</u>	<u>45,558</u>	<u>18,818</u>
Profit and total comprehensive income for the period attributable to:					
Owners of the Company		24,348	9,603	45,558	17,768
Non-controlling interests		<u>–</u>	<u>93</u>	<u>–</u>	<u>1,050</u>
		<u>24,348</u>	<u>9,696</u>	<u>45,558</u>	<u>18,818</u>
Earnings per share attributable to owners of the Company (sen)					
– Basic and diluted	10	1.52	0.69	2.85	1.26
One-off and non-recurring costs					
Listing expenses		–	247	1,647	247
Reported profit for the period		24,348	9,696	45,558	18,818
Adjusted profit for the period		<u>24,348</u>	<u>9,943</u>	<u>47,205</u>	<u>19,065</u>

The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the three months and six months ended 30 June 2018 should be read in conjunction with the audited financial statements for the year ended 31 December 2017.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

		As at 30/6/2018 (Unaudited) MYR'000	As at 31/12/2017 (Audited) MYR'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		46,330	38,209
Leasehold land		7,673	7,704
Intangible assets		1,626	932
Investment in an associate		2,373	1,012
		58,002	47,857
Current assets			
Inventories		148,791	121,541
Trade receivables	<i>11</i>	52,172	32,648
Other receivables, deposits and prepayments	<i>12</i>	9,695	7,855
Derivative financial assets		–	461
Cash and cash equivalents		185,935	81,643
Tax recoverable		881	4
		397,474	244,152
Total assets		455,476	292,009

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2018

		As at 30/6/2018 (Unaudited) MYR'000	As at 31/12/2017 (Audited) MYR'000
	<i>Notes</i>		
EQUITY AND LIABILITIES			
EQUITY			
Share capital		92,991	1
Reserves		172,938	127,380
		<u>265,929</u>	<u>127,381</u>
Total equity		<u>265,929</u>	<u>127,381</u>
LIABILITIES			
Non-current liabilities			
Finance lease liabilities		–	36
Deferred income		354	419
		<u>354</u>	<u>455</u>
Current liabilities			
Trade payables	<i>13</i>	31,313	24,551
Other payables, accruals and provision	<i>14</i>	136,908	123,605
Amount due to ultimate holding company		5,686	10,799
Amount due to a fellow subsidiary		257	555
Derivative financial liabilities		8,953	–
Finance lease liabilities		106	138
Bank borrowing		3,842	4,000
Provision for taxation		2,128	525
		<u>189,193</u>	<u>164,173</u>
Total liabilities		<u>189,547</u>	<u>164,628</u>
Total equity and liabilities		<u>455,476</u>	<u>292,009</u>

The unaudited Condensed Consolidated Statement of Financial Position as at 30 June 2018 should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Capital reserve	Retained profits	Sub-total		
	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000
As at 1 January 2018 (Audited)	1	44,477	82,903	127,381	-	127,381
<i>Transaction with owners:</i>						
Issuance of new shares	96,654	-	-	96,654	-	96,654
Share issue expenses	(3,664)	-	-	(3,664)	-	(3,664)
Total comprehensive income for the period	-	-	45,558	45,558	-	45,558
As at 30 June 2018 (Unaudited)	<u>92,991</u>	<u>44,477</u>	<u>128,461</u>	<u>265,929</u>	<u>-</u>	<u>265,929</u>

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital	Capital reserve	Retained profits	Sub-total		
	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000
As at 1 January 2017 (Audited)	-	39,450	43,257	82,707	3,977	86,684
<i>Transactions with owners:</i>						
Total comprehensive income for the period	-	-	17,768	17,768	1,050	18,818
Issuance of share capital	*	-	-	*	-	*
Changes in ownership interest in a subsidiary	-	5,027	-	5,027	(5,027)	-
As at 30 June 2017 (Unaudited)	<u>-</u>	<u>44,477</u>	<u>61,025</u>	<u>105,502</u>	<u>-</u>	<u>105,502</u>

* Representing one share of HK\$0.01

The unaudited Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2018 should be read in conjunction with the audited financial statements for the year ended 31 December 2017.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	6 Months ended 30/6/2018 (Unaudited) MYR'000	6 Months ended 30/6/2017 (Unaudited) MYR'000
Cash flows from operating activities		
Profit before taxation	48,188	21,041
Adjustments for:		
Amortisation of intangible assets	389	356
Amortisation of leasehold land	31	31
Deferred income released	(66)	(228)
Fair value loss in investment securities	–	136
Depreciation	1,110	1,367
Interest expense	97	7
Interest income	(493)	(348)
Loss/(Gain) from changes in fair value of foreign currency forward contracts	9,414	(3,554)
Inventory written down – addition	144	6
Inventory written down – reversal	(9)	(2)
Impairment loss on receivables – addition	–	106
Property, plant and equipment written off	–	13
Share of results of an associate	38	16
Unrealised (gain)/loss on foreign exchange	(10,466)	3,068
Operating profit before working capital changes	48,377	22,015
Increase in inventories	(27,384)	(95,940)
(Increase)/decrease in receivables	(18,905)	13,990
Increase in payables	22,438	83,111
Net change in a fellow subsidiary's balance	(297)	71
Cash generated from operations	24,229	23,247
Grant received	–	262
Interest paid	(97)	(7)
Tax paid	(1,928)	(979)
Tax refunded	25	–
Net cash generated from operating activities	22,229	22,523

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
CASH FLOWS (CONTINUED)**

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	6 Months ended 30/6/2018 (Unaudited) MYR'000	6 Months ended 30/6/2017 (Unaudited) MYR'000
Cash flows from investing activities		
Interest received	493	348
Purchase of computer software	(1,113)	(204)
Purchase of property, plant and equipment	(9,200)	(927)
Purchase of leasehold land	–	(2,507)
Investment in an associate	(1,400)	(1,050)
Net cash used in investing activities	<u>(11,220)</u>	<u>(4,340)</u>
Cash flows from financing activities		
Repayments to ultimate holding company	(5,114)	(4,086)
Repayment of finance lease liabilities	(68)	(65)
Proceed from issuance of share capital	96,653	–
Share issue expenses	(3,664)	–
Repayment of bank borrowing	(158)	–
Net cash generated from/(used in) financing activities	<u>87,649</u>	<u>(4,151)</u>
Net increase in cash and cash equivalents	98,658	14,032
Effect of foreign exchange rate changes	5,634	(777)
Cash and cash equivalents at the beginning of the period	81,643	26,298
Cash and cash equivalents at the end of the period	<u>185,935</u>	<u>39,553</u>

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 12 June 2017 as an exempted company with limited liability under the Companies Law. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 January 2018 ("Listing Date").

The Company is an investment holding company and has not carried on any business since its incorporation save for the group reorganisation below. The Group is principally engaged in (i) designing, development and manufacturing of standard and non-standard automated equipment and (ii) designing, development and installation of integrated automated manufacturing solutions (the "Listing Business").

The Company's immediate holding company is Pentamaster Corporation Berhad ("PCB", together with the Group, "Pentamaster Group"), a company incorporated in Malaysia with its shares listed on the Main Market of Bursa Malaysia Berhad. As at 30 June 2018, the Directors regard PCB as the ultimate holding company.

2. BASIS OF PRESENTATION

Prior to the group reorganisation (the "Reorganisation") as detailed in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and corporate structure" of the Prospectus, PCB directly owned the companies operating the Listing Businesses. Pursuant to the Reorganisation, the companies engaged in the Listing Businesses were transferred to the Company and the Company became the holding company of the companies now comprising the Group on 17 July 2017.

Immediately prior to and after the Reorganisation, the Listing Businesses are controlled by PCB. Accordingly, there was a continuation of risks and benefits to PCB and the Reorganisation is considered to be a restructuring of entities under common control.

The condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows of the Group have been prepared using the merger basis of accounting as if the current group structure had been in existence throughout the years, or since their respective dates of incorporation, where it is a shorter period. The condensed consolidated statement of financial position at the end of the reporting period have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates and using the book values from PCB's perspective.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

These condensed consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”). The condensed consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”).

The condensed consolidated financial statements should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2017. The accounting policies and methods of computation adopted for the condensed consolidated financial statements are consistent with those adopted in the audited financial statements for the year ended 31 December 2017.

In the current interim period, the Group has adopted all the new and revised IFRSs issued by the IASB that are relevant to its operations and effective for annual accounting periods beginning on or after 1 January 2018. The application of the new or revised standards, amendments and interpretations in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

(b) Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is historical cost except for:

- financial instruments classified as at fair value through profit or loss, and
- derivative financial instruments (other than linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured)

which are stated at fair values. The measurement bases are fully described in the accounting policies below.

The condensed consolidated financial statements are presented in Ringgit Malaysia (“MYR”), which is the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands (“MYR’000”), except when otherwise indicated.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Future changes in IFRSs

At the date of this announcement, the following new and amended IFRSs have been published but are not yet effective and have not been adopted early by the Group.

IFRS 16	Leases ¹
IFRS 17	Insurance Contracts ²
IFRIC 23	Uncertainty over Income Tax Treatment ¹
Amendments to IFRS 10 and IAS28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments IAS 28	Long-Term Interests in Associates and Joint Ventures ¹

¹ Effective for annual periods beginning on or after 1 January 2019

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

³ Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. These new and amended IFRSs are not expected to have a material impact on the Group's financial performance and financial position.

4. SEGMENT INFORMATION

The Group has two reportable segments which comprised its major business segments. These business segments are involved in different activities and are managed by segment managers who report directly to the Group's executive directors. The reportable segments are as follows:

- (i) Automated equipment: Designing, development and manufacturing of standard and non-standard automated equipment
- (ii) Automated manufacturing solution: Designing, development and installation of integrated automated manufacturing solutions.

Inter-segment transactions have been accounted for on a basis that is consistent with the Group's accounting policies. No other operating segments have been aggregated to form the above reportable segments. Investment holding activities are not considered as reporting segment and the related financial information has been included under "Adjustment".

4. SEGMENT INFORMATION (Continued)

The Group's executive directors monitor the performance of the business segments through regular discussions held with the segment managers and review of internal management reports. The performance of each business segment is evaluated based on the segment's profit or loss which is measured on a basis not significantly different from the profit or loss included in the condensed consolidated financial statements.

An analysis of the Group's revenue and results by operating and reportable segment is as follows:

Unaudited results for the six months ended 30 June 2018

	Automated equipment MYR'000	Automated manufacturing solution MYR'000	Adjustment MYR'000	Note	Total MYR'000
Revenue					
External customers	174,253	25,117	–		199,370
Inter-segment revenue	5,873	6,241	(12,114)	(i)	–
Total revenue	<u>180,126</u>	<u>31,358</u>	<u>(12,114)</u>		<u>199,370</u>
Results					
Segment results	42,615	2,486	3,222		48,323
Finance costs	(97)	–	–		(97)
Share of results of an associate	–	–	(38)		(38)
Profit before taxation	42,518	2,486	3,184		48,188
Taxation	(2,628)	(2)	–		(2,630)
Profit for the period	<u><u>39,890</u></u>	<u><u>2,484</u></u>	<u><u>3,184</u></u>		<u><u>45,558</u></u>

4. SEGMENT INFORMATION (Continued)

Unaudited results for the six months ended 30 June 2017

	Automated equipment MYR'000	Automated manufacturing solution MYR'000	Adjustment MYR'000	Note	Total MYR'000
Revenue					
External customers	82,687	13,944	-		96,631
Inter-segment revenue	1,040	6,051	(7,091)	(i)	-
Total revenue	83,727	19,995	(7,091)		96,631
Results					
Segment results	19,777	3,313	(2,026)		21,064
Finance costs	(7)	-	-		(7)
Share of results of an associate	-	-	(16)		(16)
Profit/(loss) before taxation	19,770	3,313	(2,042)		21,041
Taxation	(2,221)	(2)	-		(2,223)
Profit/(loss) for the period	17,549	3,311	(2,042)		18,818

Note to segment information:

- (i) Inter-segment revenues are eliminated on consolidation.

4. SEGMENT INFORMATION (Continued)

Geographical information

(i) Revenue breakdown based on the locations which purchase orders were derived from:

	For the six months ended 30 June			
	2018		2017	
	(Unaudited) MYR'000	%	(Unaudited) MYR'000	%
Singapore	114,218	57.3%	60,376	62.5%
PRC	29,524	14.8%	3,957	4.1%
Malaysia	18,748	9.4%	14,946	15.5%
Taiwan	14,094	7.1%	1,497	1.5%
Ireland	7,956	4.0%	5,470	5.7%
United States	6,336	3.2%	2,411	2.5%
Japan	4,102	2.1%	860	0.9%
Philippines	1,512	0.8%	5,497	5.7%
Others	2,880	1.3%	1,617	1.6%
	<u>199,370</u>	<u>100.0%</u>	<u>96,631</u>	<u>100.0%</u>

(ii) Revenue breakdown based on the shipment destination:

	For the six months ended 30 June			
	2018		2017	
	(Unaudited) MYR'000	%	(Unaudited) MYR'000	%
Singapore	113,520	56.9%	60,283	62.4%
PRC	38,945	19.5%	12,809	13.3%
Malaysia	18,773	9.4%	13,938	14.4%
Taiwan	14,386	7.2%	1,307	1.4%
Ireland	4,378	2.2%	–	0.0%
Japan	4,102	2.1%	860	0.9%
Philippines	2,515	1.3%	5,617	5.8%
Others	2,751	1.4%	1,817	1.8%
	<u>199,370</u>	<u>100.0%</u>	<u>96,631</u>	<u>100.0%</u>

5. REVENUE

The Group's revenue from external customers recognised during the period is as follows:

	Six months ended 30 June	
	2018 (Unaudited) MYR'000	2017 (Unaudited) MYR'000
Invoiced value of goods sold less returns and discounts	196,051	89,835
Service rendered	3,319	6,796
	<u>199,370</u>	<u>96,631</u>

The Group generated most of the revenue through the provision of products and solutions to the customers. Service rendered represented provision of service to customers such as (i) upgrading of software programming; (ii) annual maintenance support; (iii) repair and technical services; and (iv) vision integration programming for test handlers.

6. OTHER INCOME

	Six months ended 30 June	
	2018 (Unaudited) MYR'000	2017 (Unaudited) MYR'000
Bank interest income	493	348
Deferred income released	66	228
Gain on foreign exchange	15,041	–
Gain from changes in fair value of foreign currency forward contracts	5,455	3,554
Rental income	187	187
Others	106	357
	<u>21,348</u>	<u>4,674</u>

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	MYR'000	MYR'000
Amortisation of intangible assets	389	356
Amortisation of leasehold land	31	31
Auditor's remuneration	182	30
Deferred income released	(66)	(228)
Depreciation	1,110	1,367
Fair value gain on investment securities	–	136
Net (Gain)/loss from changes in fair value of foreign currency forward contracts	9,414	(3,554)
Impairment loss on trade receivables	–	106
Inventory written downs to net realisable value		
– addition	144	6
– reversal	(9)	(2)
Net loss/(gain) on foreign exchange	(10,250)	4,560
Operating lease charges		
– hostel	437	220
– office	33	4
Property, plant and equipment written off	–	13
Listing expenses	1,647	247

8. TAXATION

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Malaysian income tax is calculated at the statutory tax rate of 24% on the estimated chargeable income arising in Malaysia for 1H2018 and 1H2017. The effective tax rate is lower than the statutory tax rate as certain subsidiaries of the Group have been granted pioneer status under the Promotion of Investments Act, 1986 by the Malaysian Industrial Development Authority which exempts 100% of statutory income in relation to the production of certain products and solutions.

9. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	MYR'000	MYR'000
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	<u><u>45,558</u></u>	<u><u>17,768</u></u>
Number of shares	<u><u>1,600,000,000</u></u>	<u><u>1,408,000,000</u></u>

There were no dilutive potential ordinary shares and therefore, diluted earnings per share equals to basic earnings per share.

11. TRADE RECEIVABLES

The normal credit terms granted to trade receivables range from 0 to 90 days. Based on the invoice date, the ageing analysis of trade receivables, net of provision for impairment, was as follows:

	30 June 2018 (Unaudited) MYR'000	31 December 2017 (Audited) MYR'000
0-30 days	12,446	8,355
31-60 days	9,047	7,306
61-90 days	12,631	4,021
Over 90 days	18,048	12,966
	<u>52,172</u>	<u>32,648</u>

12. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2018 (Unaudited) MYR'000	31 December 2017 (Audited) MYR'000
Other receivables	33	58
Refundable deposits	514	602
Non-refundable deposits (<i>note (i)</i>)	3,383	1,053
Prepayments	781	1,207
Goods and services tax claimable	4,984	3,011
Receivables from PCB (<i>note (ii)</i>)	–	1,924
	<u>9,695</u>	<u>7,855</u>

Notes:

- (i) Non refundable deposits are mainly for deposits paid to suppliers for purchase of raw materials/ services.
- (ii) Receivables from PCB represented PCB's portion of the listing expenses incurred.

13. TRADE PAYABLES

The normal credit terms granted by trade payables range from 30 to 120 days. Based on the invoice date, the ageing analysis of trade payables is as follows:

	30 June 2018 (Unaudited) MYR'000	31 December 2017 (Audited) MYR'000
0-30 days	17,179	13,723
31-60 days	7,562	6,150
61-90 days	4,679	2,032
Over 90 days	1,893	2,646
	<u>31,313</u>	<u>24,551</u>

14. OTHER PAYABLES, ACCRUALS AND PROVISION

	30 June 2018 (Unaudited) MYR'000	31 December 2017 (Audited) MYR'000
Other payables	1,946	1,439
Deposits received (<i>note</i>)	123,891	116,031
Accruals	10,627	5,691
Provision for warranty	444	444
	<u>136,908</u>	<u>123,605</u>

Note: This is in respect of deposits received from customers upon placing sales orders.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group continued to mark another milestone in achieving records during the second quarter and for the first half of 2018 in respect of its revenue, operating profit and net profit. It was notable that the demand and positive acceptance of our broad range of test equipment and integrated automation products and solutions had contributed to the significant growth in revenue by approximately 106.3% from MYR96.6 million in 1H2017 to MYR199.4 million in 1H2018. The growth in revenue was primarily contributed by both the automated equipment and automated manufacturing solution segment which constituted approximately 87.4% and 12.6% of the total revenue respectively.

	Revenue		Fluctuation %
	1H2018 (Unaudited) MYR'000	1H2017 (Unaudited) MYR'000	
Automated equipment	180,126	83,727	115.1%
Automated manufacturing solution	31,358	19,995	56.8%

Automated equipment segment

The automated equipment segment remains as the Group's major revenue source. The products and solutions under this segment generally consist of (i) semiconductor electronic components testing for smart sensors and ICs (integrate circuits), and (ii) end products testing for consumer electronics products and LEDs. This segment recorded an increase in revenue by MYR96.4 million to MYR180.1 million in 1H2018 as compared to the previous corresponding period. The substantial increase in revenue by approximately 115.1% from this segment was mainly attributable to the stronger demand for our test equipment namely microelectromechanical systems (MEMS) and smart sensor test handler solutions from the telecommunication markets particularly the smart mobile device sector as well as the automotive sector.

Automated manufacturing solution segment

The products and solutions in this segment entail customised integrated manufacturing system consisting of automated assembly and test modules, material handling equipment, robotics technology, auto inspection and manufacturing execution system (MES) for various industries including telecommunications, automotive, food and beverage and medical devices. Revenue from this segment in 1H2018 was MYR31.4 million, which was MYR11.4 million higher than the revenue of MYR20.0 million in the previous corresponding period, representing an increase of approximately 56.8%. The increase in revenue from this segment was mainly due to higher demand for our proprietary products in our AMS (automated manufacturing solution) modules and our i-ARMS (intelligent Automated Robotic Manufacturing System) solutions for the industries as described above.

Revenue contribution from this segment is expected to grow following the commencement of operations of our second new production plant in June 2018 with a gross floor area of approximately 97,033 sq.ft.. The larger production space in our new production plant afforded the Group with increased production capacity and manufacturing capabilities. We expect a higher volume of project delivery involving large-scale factory automation lines such as our i-ARMS solutions in the second half of the year.

The following table sets out revenue breakdown by customers' segment for both the automated equipment segment and automated manufacturing solutions segments:

	For the six months ended 30 June			
	2018		2017	
	(Unaudited) MYR'000	%	(Unaudited) MYR'000	%
Telecommunication	142,586	71.5%	67,097	69.4%
Automotive	24,849	12.5%	1,421	1.5%
Semiconductor	21,708	10.9%	17,915	18.5%
Consumer electronics	7,940	4.0%	9,236	9.6%
Medical devices	404	0.2%	1	0.0%
Others	1,883	0.9%	961	1.0%
	199,370	100.0%	96,631	100.0%

Gross margin

Gross profit margin achieved by the Group has improved. The Group achieved gross margins of 33.6% and 31.9% for the second quarter and the first half of the year respectively, as opposed to the gross margins of 31.9% and 30.3% for the second quarter and the first half of year 2017. The improvement in gross profit was mainly due to (i) delivery of projects from customers' repeat orders with better margin, (ii) less incurrence of prototype expenses in 1H2018, and (iii) increase in revenue contribution from the automotive sector, a sector which we see better gross margins. Generally, the automotive sector requires highly customised, high in quality and standard with far more stringent safety measures for its components in which the Group is able to meet in supplying our test equipment and manufacturing solutions.

Other income

Other income increased from MYR4.7 million in 1H2017 to MYR21.3 million in 1H2018. Other income mainly consisted of foreign exchange gain of MYR15.0 million recorded during the first half of the year. The gain on foreign exchange arose from the appreciation of U.S. dollar against MYR in the same quarter. However, such gain on foreign exchange was offset by the loss from changes in fair value of foreign currency forward contracts of MYR14.9 million recorded under the administrative expenses, resulting in a net gain on foreign exchange of approximately MYR0.1 million in the first half of the year.

Administrative expenses

Administrative expenses increased from MYR11.0 million in 1H2017 to MYR34.9 million in 1H2018, mainly due to the loss from changes in fair value of foreign currency forward contracts and non-recurring listing expenses incurred by the Group in the first quarter of 2018. Staff costs had also increased in the same period.

The Group's sales and receivables were predominantly denominated in U.S dollar. As part of the Group's treasury policy to manage its foreign exchange exposure, the Group entered into foreign exchange forward contracts to minimise the effects of adverse exchange rate fluctuations on the financial position of the Company. The loss from changes in fair value of foreign currency forward contracts was mainly due to the appreciation of U.S. dollar against MYR in the first half of 2018. This loss was offset by the net gain on foreign exchange of approximately MYR15.0 million recorded under other income.

In addition to the above, the listing expenses of MYR1.6 million recorded in the first quarter of 2018 also contributed to the higher administrative expenses in 1H2018. Staff costs increased from MYR10.1 million in 1H2017 to MYR18.7 million in 1H2018, mainly due to an increase in both staff remuneration and headcount.

Profit for the year

The Group closed its first half of year 2018 with a net profit of MYR45.6 million (1H2017: MYR18.9 million) after taking into account the one-off listing expenses incurred in the first quarter of 2018 which was related to the listing exercise of the Company. Should the effects of such expenses be excluded, the Group would have exhibited a net profit of MYR47.2 million which was an increase of 147.6% from MYR19.1 million recorded in 1H2017. Similarly, the adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) for the first half of 2018 stood at MYR50.9 million as compared to MYR22.8 million recorded in 1H2017. Basic earnings per share rose from MYR1.26 sen in 1H2017 to MYR2.85 sen in 1H2018.

Liquidity, financial resources and capital structure

On the balance sheet front, the financial position of the Group remains healthy, exhibiting improved current ratio and gearing ratio:

	As at 30 June 2018 (Unaudited) MYR'000	As at 31 December 2017 (Audited) MYR'000	<i>Notes</i>
Current assets	397,474	244,152	
Current liabilities	189,193	164,173	
Current ratio (times)	2.10	1.49	<i>1</i>
Gearing ratio (%)	3.7	12.2	<i>2</i>

Notes:

- (1) Current ratio is calculated by dividing current assets by current liabilities as at the end of the respective period.
- (2) Gearing ratio is calculated based on the total debts (being amount due to ultimate holding company, amounts due to a fellow subsidiary, finance lease liabilities and bank borrowing) divided by total equity as at the end of each respective year and multiply by 100.0%.

The Group continued to maintain a robust working capital position which stood at MYR208.3 million as at 30 June 2018 (31 December 2017: MYR80.0 million). Cash and cash equivalents increased from MYR81.6 million as at 31 December 2017 to MYR185.9 million as at 30 June 2018. As at 30 June 2018, the Group had available banking facilities of MYR32.5 million in the form of term loan and trade facilities, out of which a total of MYR3.8 million was utilised to finance the purchase of a leasehold land for the new production plant.

Foreign exchange exposure

The Group is exposed to foreign currency risk as a result of its normal trading activities whereby sales and to a certain degree, purchases are principally transacted in U.S. dollar. The Group also holds other financial assets and liabilities denominated in foreign currencies. These are not the functional and reporting currencies of the Group.

As such, the Group mitigates the exposure of such risk by entering into foreign currency forward contracts.

Prospects

Generally, the Group views its performance in the second half of the year positively based on the current book orders on hand. The Group anticipates a positive growth momentum going into the second half of 2018 deriving mainly from the 3D sensing test equipment for the smartphone devices segment as well as automation solutions for the automotive segment. For the first half of the year 2018, these two segments contributed in aggregate approximately 84.0% of the Group's total revenue.

For the Group's test equipment for 3D sensing, such technology has just been commercialised last year into the smartphone devices. The application of 3D sensing towards a more diverse range of smartphone devices as well as into other devices and other applications creates a huge market opportunity for the Group to tap into and expand its clientele base. Such major technology revolution has evolved 3D sensing to include automated teller machines, immigration check points, biometrics security and even healthcare which affords the Group with the prospect to expand and diversify its business segments going forward.

In respect of the Group's automation solution, the automotive sector has experienced a rapid shift from mechanical parts to more electrical parts adopted in a vehicle, with more electronic devices and components. This coupled with the continuous growth of electric vehicles in the market place, will provide the Group's revenue deriving from the automation solutions to remain robust. Additionally, Industry 4.0 initiatives and its adoption rate also provide another impetus to the Group's automation solutions.

Moving forward, the Group believes it has reached a stage to embark on opportunities that allows it to pursue expansion through strengthening its market position and/or diversifying its solutions by acquiring and/or developing new technologies to be at the forefront of technology innovation in the industry it operates in. With the short term trade conflicts between the United States and China resulting in trade diversion effect, this provides a better prospect for the Group as one of the automation technology and solutions providers from South East Asia, to expedite its expansion plan in Greater China region.

The Group remains fundamentally focused on its operational capabilities and strategic initiatives by keeping abreast of the latest technological trends and requirements relevant to the industry. With Industry 4.0, IoT (Internet of Things), electrical vehicles, 3D Sensing, 5G communications, artificial intelligence all playing a prominent "disruptive innovative" role, the Group is prudently optimistic that year 2018 will be another good year with plentiful business opportunities in this dynamic marketplace for it to expand and diversify into. As it is, we are heartened to witness the Pentamaster Group was again listed in Forbes "2018 Asia's 200 Best Under a Billion Company", after having been given the ranking in 2017. For two consecutive years, the Forbes annual listing honours Pentamaster Group for being one of the 200 small-to-medium sized enterprises in the Asia Pacific region with sales under US\$1 billion and with a track record of strong top and bottom line growth. Pentamaster Group is one of the only three Malaysian companies that was honoured for this year's Forbes listing.

USE OF NET PROCEEDS FROM THE LISTING

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 19 January 2018 at the offer price of HK\$1.00 per share (the “Listing”). The proceeds (net of listing expenses) raised from the Listing were approximately HK\$171.3 million. In accordance with the proposed use of net proceeds as set out in the section headed “Future plans and Use of Proceeds” in the Prospectus, the net proceeds utilised by the Group from the Listing Date up to 30 June 2018 are as follows:

Use of net proceeds	Amount of net proceeds to be utilised		Use of proceeds from the Listing Date up to 30 June 2018	Unutilised amount	Unutilised proportion
	HK\$' million	MYR' million	MYR' million	MYR' million	%
Capital investment and costs in relation to the new production plant and the expansion of the existing production plant	84.8	45.8	9.6	36.2	79.0%
Business expansion into the Greater China region	38.1	20.6	–	20.6	100.0%
Establishment of an office in California, U.S.	28.2	15.3	0.5	14.8	96.7%
Marketing, branding and promotional activities	3.1	1.7	0.2	1.5	88.2%
Working capital	17.1	9.2	9.2	–	0.0%
Total	171.3	92.6	19.5	73.1	78.9%

The unutilised net proceeds will be applied in the manner consistent with that mentioned in the Prospectus. The Directors are not aware of any material change to the proposed use of proceeds as at the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

The Company recognises the employees as one of the Group's most important assets. The Company strongly believes in hiring the right talent, nurturing and retaining them. Besides offering competitive remuneration packages, the Company through its parent company in Malaysia adopted the share award scheme with the objectives to recognise contributions made by the eligible employees and to retain these eligible employees for the continual operation, growth and future development of the Group.

As at 30 June 2018, the total number of full time employees of the Group was 505 (30 June 2017: 317). Of the total workforce, we currently have approximately 380 in-house engineers where most of them were based in Malaysia whilst the rest were stationed in the PRC (People's Republic of China) and the United States for customer liaison sales and support purposes. The total staff costs incurred in 1H2018 was MYR18.7 million as compared to MYR10.1 million recorded in 1H 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period from the Listing Date and up to the date of this announcement.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there is no significant subsequent event undertaken by the Company or by the Group after 30 June 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE

During the period from the Listing Date to the date of this announcement, the Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules. The CG Code was not applicable to the Company before the Listing Date. Other than disclosed below, the Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

The CG code provision A.2.1 requires that the roles of chairman and chief executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who manage the business. As detailed in the annual report of the Company for the financial year ended 31 December 2017 published on 26 April 2018 (the “Annual Report”), the Company currently has not appointed any chief executive. The day-to-day management of business has been properly delegated to different individuals by the Board. For further details, please refer to the section headed “Chairman and Chief Executive” in the Annual Report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions of the Directors (the “Securities Dealing Code”). Specific enquiries have been made with all the Directors and all of them confirmed that they have complied with the Model Code and the Securities Dealing Code since the Listing Date and up to the date of this announcement, except that Dr. Chuah Jin Chong, an independent non-executive Director, acquired 112,000 shares of the Company on 22 January 2018. The Company will from time to time reiterate and provide reminders to the Directors regarding the procedures, rules and requirements to be complied with by them in relation to Directors’ dealings in securities.

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) was established on 19 December 2017 in compliance with the CG Code. As at the date of this announcement, the Audit Committee consists of two independent non-executive Directors namely Mr. Sim Seng Loong @ Tai Seng (being the chairman of the Audit Committee who has a professional qualification in accountancy) and Ms. Chan May May and one non-executive Director namely Mr. Leng Kean Yong. The Audit Committee is accountable to the Board and the primary duties of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018, including the applicable accounting policies and accounting standards adopted by the Group, and the applicable Listing Rules.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement will be published on the website of the Stock Exchange (*www.hkexnews.hk*) and the website of the Company (*www.pentamaster-international-ltd.com*). The interim report of the Company for the six months ended 30 June 2018 containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

By order of the Board
Pentamaster International Limited
Chuah Choon Bin
Chairman and Executive Director

Malaysia, 17 August 2018

As at the date of this announcement, the Board comprises Mr. Chuah Choon Bin and Ms. Gan Pei Joo as executive Directors; Mr. Leng Kean Yong as non-executive Director; and Ms. Chan May May, Dr. Chuah Jin Chong and Mr. Sim Seng Loong @ Tai Seng as independent non-executive Directors.