

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
Statement of Profit or Loss and Other Comprehensive Income
For The 1st Quarter Ended 31 March 2020

The unaudited financial results of Kelington Group Berhad and its subsidiaries (the "Group") for the period ended 31 March 2020 are as follow:-

		Unaudited	Unaudited			Unaudited	Unaudited		
	Note	Current Qtr Ended 31.3.2020 RM'000	Previous Qtr Ended 31.3.2019 RM'000	+	-	Unaudited 3-months Period up to 31.3.2020 RM'000	Unaudited 3-months Period up to 31.3.2019 RM'000	+	-
				%				%	
Revenue		84,731	76,407	+		84,731	76,407	+	11
Cost of sales		(72,953)	(62,445)			(72,953)	(62,445)		
Gross profit		11,778	13,962	-	16	11,778	13,962	-	16
Other income		496	515			496	515		
Administrative expenses		(6,358)	(5,537)			(6,358)	(5,537)		
Selling and distribution expenses		(200)	(293)			(200)	(293)		
Other expenses		(119)	(1,800)			(119)	(1,800)		
Results from operating activities		5,597	6,847	-	18	5,597	6,847	-	18
Finance costs		(695)	(343)			(695)	(343)		
Profit before taxation for the financial period		4,902	6,504	-	25	4,902	6,504	-	25
Taxation	B5	(879)	(1,726)			(879)	(1,726)		
Profit after taxation for the financial period		4,023	4,778	-	16	4,023	4,778	-	16
Other comprehensive income, net of tax									
Foreign currency translation		(566)	1,653			(566)	1,653		
		(566)	1,653			(566)	1,653		
Total comprehensive income for the period		3,457	6,431			3,457	6,431		
Profit attributable to:									
Shareholders of the Company		4,055	4,843	-	16	4,055	4,843	-	16
Non-controlling interests		(32)	(65)			(32)	(65)		
Profit after taxation for the financial period		4,023	4,778	-	16	4,023	4,778	-	16
Total comprehensive income attributable to:									
Shareholders of the Company		3,487	6,494			3,487	6,494		
Non-controlling interests		(30)	(63)			(30)	(63)		
Total comprehensive income for the period		3,457	6,431			3,457	6,431		
Basic earnings per ordinary share (sen):									
Basic earnings per share (sen)	B11	1.30	1.73			1.30	1.73		
Diluted earnings per share (sen)	B11	1.25	1.59			1.25	1.59		

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

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
Statement of Financial Position
As at 31 March 2020

	Unaudited As At 31.3.2020 RM'000	Audited As At 31.12.2019 RM'000
ASSETS		
Non-current assets		
Property, plant & equipment	58,348	52,959
Goodwill on consolidation	6,328	6,360
Right of use	4,178	4,299
	68,854	63,618
Current assets		
Inventories	6,343	552
Contract assets	60,739	49,496
Trade receivables	59,740	90,915
Other receivables, prepayments and deposits	15,366	13,103
Current tax assets	1,829	303
Fixed deposits with licensed banks	30,226	28,088
Cash and cash equivalents	60,916	56,980
	235,159	239,437
	304,013	303,055
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Equity		
Share capital	71,276	71,276
Retained earnings	73,626	69,571
Other reserve	14,589	14,948
Treasury share	(534)	(534)
Total Equity attributable to Shareholders of the Company	158,957	155,261
Non-controlling interests	243	273
Total Equity	159,200	155,534
Non-current liabilities		
Deferred tax liabilities	92	92
Lease liability	2,294	2,545
Long-term borrowings	27,979	23,327
	30,365	25,964
Current liabilities		
Contract liabilities	34,470	31,128
Trade payables	47,618	40,349
Other payables and accruals	16,808	32,268
Lease liability	809	738
Current tax liabilities	4,803	4,993
Short term borrowings	9,940	12,081
	114,448	121,557
Total liabilities	144,813	147,521
	304,013	303,055
TOTAL EQUITY AND LIABILITIES		
Net Assets Per Share Attributable to ordinary Equity holders of the company (RM)	0.5111	0.4994

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

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
 Condensed Consolidated Statements of Changes in Equity
 For The 1st Quarter Ended 31 March 2020

	<----- Attributable to Equity Holders of the Company ----->					Distributable	Total	Non-Controlling	Total
	<----- Non Distributable ----->								
	Share Capital RM'000	Capital Reserve RM'000	Employee Share Scheme Reserve RM'000	Exchange Fluctuation Reserve RM'000	Treasury Share RM'000	Earnings RM'000	RM'000	RM'000	RM'000
As at 1 January 2020	71,276	9,311	1,597	4,040	(534)	69,571	155,261	273	155,534
Profit after taxation for the financial period	-	-	-	-	-	4,055	4,055	(32)	4,023
Other comprehensive expense, net of tax:									
- Foreign currency translation	-	-	-	(568)	-	-	(568)	2	(566)
Total comprehensive (expense)/ income for the financial period	-	-	-	(568)	-	4,055	3,487	(30)	3,457
Contributions by and distribution to owners of the company:									
- Investment in subsidiaries:									
- Ace Gases Sdn Bhd	-	-	-	-	-	-	-	-	-
- Ace Gases Marketing Sdn Bhd	-	-	-	-	-	-	-	-	-
- Warrants exercised	-	-	-	-	-	-	-	-	-
- Employees' share scheme reserve	-	-	209	-	-	-	209	-	209
- Employees' share scheme offered	-	-	-	-	-	-	-	-	-
- Dividend paid for the period	-	-	-	-	-	-	-	-	-
Total recognised income and expense for the period	-	-	209	-	-	-	209	-	209
As at 31 March 2020	71,276	9,311	1,806	3,472	(534)	73,626	158,957	243	159,200
As at 1 January 2019	50,422	9,217	1,385	4,596	(534)	51,054	116,140	75	116,215
Profit after taxation for the financial year	-	-	-	-	-	4,843	4,843	(65)	4,778
Other comprehensive income, net of tax:									
- Foreign currency translation differences	-	-	-	1,651	-	-	1,651	2	1,653
Total comprehensive income/ (expenses) for the financial year	-	-	-	1,651	-	4,843	6,494	(63)	6,431
Contributions by and distribution to owners of the company:									
- Employees' share scheme reserve	-	-	207	-	-	-	207	-	207
- Warrants exercised	11,953	-	-	-	-	-	11,953	-	11,953
- Investment in a subsidiary:									
- Ace Gases Sdn Bhd	-	-	-	-	-	-	-	267	267
Total transactions with owners	11,953	-	207	-	-	-	12,160	267	12,427
As at 31 March 2019	62,375	9,217	1,592	6,247	(534)	55,897	134,794	279	135,073

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

KELINGTON GROUP BERHAD ("KGB")
[Company No. 199901026486 (501386-P)]
Condensed Consolidated Statement of Cash Flow
For The Period Ended 31 March 2020

	Unaudited 3-Months Ended 31.3.2020 RM'000	Unaudited 3-Months Ended 31.3.2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	4,902	6,504
Adjustments for:-		
Depreciation of property, plant and equipment	1,212	564
Impairment loss on trade receivables	-	198
Interest expense	672	118
Interest income	(323)	(59)
Gain on disposal of equipment	-	(1)
Share-based payments	209	207
Writeback of impairment loss on trade receivables	(249)	(46)
Unrealised loss on foreign exchange	(1,320)	646
Operating profit before working capital changes	5,103	8,131
Increase in inventory	(5,791)	-
(Increase)/Decrease in contract assets /(contract liabilities)	(7,901)	9,876
Derease in trade and other receivables	27,891	29,204
Decrease in trade and other payables	(7,531)	(22,387)
CASH FROM OPERATIONS	11,771	24,824
Income tax paid	(2,596)	(1,049)
Interest paid	(672)	(118)
Interest received	323	59
NET CASH FROM OPERATING ACTIVITIES	8,826	23,716
CASH FLOWS FOR INVESTING ACTIVITIES		
Purchase of plant and equipments	(4,425)	(8,052)
Proceeds from issuance of shares to non-controlling interest	-	267
Placement of fixed deposit pledged with licensed bank	(104)	(107)
NET CASH FOR INVESTING ACTIVITIES	(4,529)	(7,892)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	-	(2,655)
Repayment of revolving credit	-	(3,035)
Drawdown of trust receipts	4,007	-
Net (repayment)/drawdown of lease liability	(180)	3,217
Net drawdown/ (repayment) of term loan	4,875	(1,381)
Drawdown of business premise loan	1,550	-
Repayment of invoice financing	(7,921)	(3,889)
Proceeds from exercise of warrants	-	11,954
NET CASH FROM FINANCING ACTIVITIES	2,331	4,211
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,628	20,035
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(658)	1,258
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	67,997	52,202
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	73,967	73,495
Cash and cash equivalents at the end of financial period comprise the following:		
Cash and bank balances	60,916	56,705
Fixed deposits	30,226	31,805
	91,142	88,510
Less: fixed deposits pledged with licensed banks	(17,175)	(15,015)
	73,967	73,495

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

Part A - Explanatory Notes Pursuant to MFRS 134

1. Basis of Preparation

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

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

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

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

MFRSs and/or IC Interpretations (Including the Consequential Amendments)	Effective date
MFRS 17 Insurance Contracts	1 January 2021
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 9, MFRS 139 and MFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 10 and MFRS 128 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred until further notice
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2020
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020

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

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

2. Status of Audit Qualification

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

3. Segmental Information

(a) Business Segment

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

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

	Service Segment	Manufacturing and Trading Segment	Construction Segment	The Group
	RM'000	RM'000	RM'000	RM'000
31.3.2020				
Revenue				
External revenue	162	5,147	79,422	84,731
Inter-segment revenue	-	33	688	721
	<u>162</u>	<u>5,180</u>	<u>80,110</u>	<u>85,452</u>
Consolidated Adjustments				(721)
				<u>84,731</u>

	Service Segment	Manufacturing and Trading Segment	Construction Segment	The Group
	RM'000	RM'000	RM'000	RM'000
31.3.2019				
Revenue				
External revenue	140	1,280	74,987	76,407
Inter-segment revenue			1,226	1,226
	<u>140</u>	<u>1,280</u>	<u>76,213</u>	<u>77,633</u>
Consolidated Adjustments				(1,226)
				<u>76,407</u>

3. Segmental Information (Cont'd)

(b) Geographical information

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

	Revenue		Non-current Assets	
	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000
Malaysia	19,983	21,526	55,414	28,121
China	12,941	22,057	4,115	1,717
Taiwan	1,233	1,512	200	226
Singapore	49,761	31,061	9,125	8,841
Indonesia	19	251	-	-
Vietnam	794	-	-	-
	<u>84,731</u>	<u>76,407</u>	<u>68,854</u>	<u>38,905</u>

4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter ended 31 March 2020.

5. Material Changes in Estimates

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

6. Seasonal or Cyclical Factors

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

7. Dividends Paid

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

8. Valuation of Property, Plant and Equipment

Property, plant and equipment of the Group were not revalued during the current quarter under review. As at 31 March 2020, all the property, plant and equipment were stated at cost less accumulated depreciation.

9. Movement of Debt And Equity Securities

There were no issuance, cancellation, resale and repayment of debt and equity securities during the current quarter under review.

10. Changes in Composition of the Group

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

11. Discontinued Operation

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

12. Capital Commitments

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

13. Changes in Contingent Liabilities and Contingent Assets

Saved as disclosed in the following, there is no other contingent liabilities and contingent assets as at quarter end 31 March 2020:

	As at 31.3.2020 Unaudited RM'000	As at 31.3.2019 Unaudited RM'000
Contingent liabilities		
Bank guarantee and insurance bond given to third party as performance bond or warranty bond	<u>29,100</u>	<u>23,370</u>

14. Material Subsequent Events

Saved as disclosed as below, there has been no material subsequent events after the quarter ended 31 March 2020:

On 20 May 2020, the Board of Directors of KGB proposed the payment of second interim tax-exempt dividend of 1 sen per ordinary share in respect of the FYE 31 December 2019 amounting to RM3,114,591, which payable on 3 August 2020.

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

1 Review Of Performance

	Current Year Quarter 31.3.2020 RM'000	Preceding Year Corresponding Quarter 31.3.2019 RM'000	Changes	
			Amount RM'000	%
Revenue	84,731	76,407	8,324	11%
Operating profit	5,597	6,847	(1,250)	-18%
Profit before tax	4,902	6,504	(1,602)	-25%
Profit after tax	4,023	4,778	(755)	-16%
Profit attributable to shareholders of the company	4,055	4,843	(788)	-16%

(a) Current Quarter vs. Previous Year Corresponding Quarter

	Revenue 1Q2020 31.3.2020 RM'000	% of total	Revenue 1Q2019 31.3.2019 RM'000	% of total
Ultra High Purity	63,476	75%	44,043	58%
Process Engineering	11,060	13%	20,795	27%
General Contracting	5,234	6%	10,281	13%
Industrial Gases	4,961	6%	1,288	2%
Total	84,731		76,407	
	-		-	

The Group's revenue for the quarter ended 31 March 2020 ("1Q2020") increased by 11% year-on-year ("YoY") to RM84.7 million from RM76.4 million from the same period last year ("1Q2019").

During the quarter under review, the Singapore operations remained the largest revenue contributor at RM49.8 million or 59% of total revenue, rising 60% YoY from RM31.1 million in 1Q2019, on the back of higher projects completion in the Ultra High Purity ("UHP") division. Revenue from Malaysia came in second at RM20.0 million or 24% of total revenue in 1Q2020, followed by China (15%), Taiwan (1%) and others (1%).

In terms of business segment, the UHP division remained as the primary revenue contributor at RM63.5 million, representing 75% of total revenue, and recorded a strong growth of 44% YoY in 1Q2020 against RM44.0 million in 1Q2019, driven by higher projects completion in Singapore and Malaysia. The improvement was offset by softer performance in the Process Engineering and General Contracting divisions.

Revenue from the Process Engineering division was at RM11.1 million in 1Q2020 as compared to RM20.8 million last year, while revenue from General Contracting division stood at RM5.2 million against RM10.3 million in 1Q2019.

Meanwhile, revenue from Industrial Gases has improved to RM5.0 million in 1Q2020 from RM1.3 million in 1Q2019 on the back of contribution from the new liquid carbon dioxide plant, which commenced production in October 2019.

Gross profit was lower at RM11.8 million in 1Q2019 as compared to RM14.0 million in 1Q2020, mainly due to the completion of a project which carried high profit margin in 1Q2019.

Subsequently, Profit before tax ("PBT") decreased by 25% YoY to RM4.9 million in 1Q2020 from RM6.5 million in 1Q2019, with PBT margins of 6%. The Group's profit after tax ("PAT") dropped 16% to RM4.0 million versus RM4.8 million in 1Q2019.

(b) Variation of Results Against Preceding Quarter

	Current Quarter 31.3.2020 RM'000	Immediate Preceding Quarter 31.12.19 RM'000	Changes	
			Amount RM'000	%
Revenue	84,731	111,342	(26,611)	-24%
Operating profit	5,597	10,691	(5,094)	-48%
Profit before tax	4,902	10,161	(5,259)	-52%
Profit after tax	4,023	7,540	(3,517)	-47%
Profit attributable to shareholders of the company	4,055	7,782	(3,727)	-48%

The Group's revenue decreased 24% to RM84.7 million in 1Q2020 as compared to RM111.3 million in the preceding quarter ended 31 December 2019 ("4Q2019"). The first quarter of the year is traditionally a weaker quarter as compared to the preceding quarter due to the festive Chinese New Year season. In addition, due to the Covid-19 pandemic, work progress at our sites were further affected by the lockdown in China in end January 2020 as well as the Movement Control Order (MCO) in Malaysia which commenced in 18 March 2020.

In tandem with the lower revenue, gross profit decreased by 48% QoQ to RM11.8 million in 1Q2020 from RM22.4 million in 4Q2019.

PBT decreased by 52% QoQ in 1Q2020 to RM4.9 million as compared to RM10.2 million in 4Q2019. The Group's PAT stood at RM4.0 million in 1Q2020 versus RM7.5 million in 4Q2019.

1 Review Of Performance (Cont'd)

(c) Statement of Financial Position

Financial Indicators	As at 31.3.2020 Unaudited RM'000	As at 31.12.2019 Audited RM'000
Total assets	304,013	303,055
Total equity	159,200	155,534
Debt	41,022	38,691
Deposits, cash & bank balance	91,142	85,068
Net cash	50,120	46,377
Debt-to-Equity	0.26	0.25

As at 31 March 2020, the Group's shareholder equity (excluding non-controlling interests) rose 2% to RM159.0 million from RM155.3 million. The increase was mainly attributable to the quarterly profit.

During the period under review, the Group's total debt grew to RM41.0 million against RM38.7 million same period last year, mainly attributed to the drawdown of term loan for the dry ice plant operating under the industrial gas division. The majority of the Group's debt are used for project financing purposes and capital expenditure for new industrial gas business division.

Meanwhile, the total gross cash in hand grew to RM91.1 million as at 31 March 2020, exceeding the total debt of RM41.0 million. As a result, the Group remained in a net cash position. Net cash per share stood at 16 sen.

2 Commentary Of Prospects

We started FY2020 on a positive note as we received approximately RM149 million worth of new orders in the first 4 months of the year. Inclusive of the carried forward projects from FY2019 and new orders in FY2020, Kelington's total orderbook grew to RM407 million, of which RM321 million remains outstanding as at 31 March 2020.

However, towards the mid of 1Q2020, we were faced with challenges arising from the Covid-19 pandemic. Due to quarantine lockdowns enacted in China, Malaysia and Singapore, work progress at our client's sites in these locations were disrupted. This has caused operational disruptions and will lead to inevitable delays in certain projects. Committed to prioritize the health and safety of our employees, clients, and suppliers, we will continue to execute our outstanding orderbook in line with the ease of restrictions at the respective countries we operate in.

While we continue to participate in project tenders across our key operating markets, we are cautiously optimistic on the outlook moving forward. In line with the softer global economic outlook, we foresee slower demand for our engineering services as large corporations may delay their capital expenditure (capex) spending.

In our view, the slowdown in operating activities is short-term and is expected to pick up pace as semiconductor players resume their expansion activities. We are confident of riding out this period as we are backed by a strong financial position. The Group is in a net cash position of RM50.1 million as at 31 March 2020.

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

Additionally, the Group's key operations outside Malaysia, which are Taiwan, China and Singapore are carried out in the respective local currencies of those countries. Hence, the Group enjoys a natural currency hedge, and this minimizes the Group's exposure to the fluctuations in the currency markets.

3 Profit Forecast and Profit Guarantee

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

4 Profit for the Period

	Quarter ended		Year-to-date ended	
	31.3.2020 RM'000	31.3.2019 RM'000	31.3.2020 RM'000	31.3.2019 RM'000
Profit for the period is arrived at after crediting/ (charging):				
Interest income	323	59	323	59
Interest expense	(672)	(118)	(672)	(118)
Impairment loss on trade receivables:				
- specified	-	-	-	-
- in accordance to MFRS 9	-	(198)	-	(198)
Depreciation and amortisation	(1,212)	(564)	(1,212)	(564)
Unrealised Foreign exchange (loss)/gain	1,320	(646)	1,320	(646)
Realised Foreign exchange (loss)/gain	(202)	(117)	(202)	(117)
Gain on disposal of equipment	-	1	-	1
Writeback on impairment loss on trade receivables	249	46	249	46

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

5 Taxation

	Current quarter ended 31.3.2020 RM'000
Current tax: - for the financial period	<u>879</u>

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

6 Corporate Proposal

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

7 Derivative Financial Instruments

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

8 Lease Liability and Group Borrowings

(a) Lease liability

The lease liability as at 31 Mar 2020 versus 31 Mar 2019 were as follows:

	31.3.2020 RM'000	31.3.2019 RM'000
Non-current	2,294	1,182
Current	809	311
Total	<u>3,103</u>	<u>1,493</u>

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

(b) Group Borrowings

The borrowings as at 31 March 2020 versus 31 March 2019 were as follows. The comparative information had been restated with the application of MFRS 16 Leases.

	As At 31 March 2020					
	Current Liabilities		Non-current Liabilities		Total Borrowings	
	Currency ('000)	RM'000	Currency ('000)	RM'000	Currency ('000)	RM'000
Secured						
Term Loan	<i>NTD8,422, RM2,738</i>	3,938	<i>NTD 3,666, RM2,456</i>	27,979	<i>NTD 12,088, RM30,194</i>	31,917
Import Loan/Invoice financing	<i>RMB2,657, RM380</i>	1,995		-	<i>RMB2,657, RM380</i>	1,995
Trust receipts	<i>SGD1,324</i>	4,007		-	<i>SGD1,324</i>	4,007
Unsecured						
Nil	-	-	-	-	-	-
		<u>9,940</u>		<u>27,979</u>		<u>37,919</u>
Weighted average interest rate of borrowings						5.03%
Proportion of borrowings between fixed interest rate and floating interest rate						20%:80%

The increase in borrowing during the period ended 31 March 2020 is mainly due to the drawdown of borrowings for the capital expenditure on industrial gas business division.

	As At 31 March 2019					
	Current Liabilities		Non-current Liabilities		Total Borrowings	
	Currency ('000)	RM'000	Currency ('000)	RM'000	Currency ('000)	RM'000
Secured						
Term Loan	<i>NTD5,660, RM1,459 RMB 8,263,</i>	1,499	<i>NTD 1,944, RM2,591</i>	2,849	<i>NTD7,604, RM4,050</i>	4,348
Import Loan/Invoice financing	<i>RM1,165</i>	6,191		-	<i>RMB8,263, RM1,165</i>	6,191
Unsecured						
Nil	-	-	-	-	-	-
		<u>7,690</u>		<u>2,849</u>		<u>10,539</u>
Weighted average interest rate of borrowings						4.30%
Proportion of borrowings between fixed interest rate and floating interest rate						41%:59%

The decrease in borrowing during the period ended 31 March 2019 is mainly due to repayment of revolving credit and completion of few major projects in China.

9 Material Litigation

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

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

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

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

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

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

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

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

(2) Updates of legal proceeding between Kelington Technologies Sdn Bhd ("KTSB"), a wholly owned subsidiary of Kelington, against Australian Marine Technology (License No.:631371, DCCI No.:184436) and Eric Robert Bowra (Passport No.:E4011930), one of the guarantors for the works performed for Australian Marine Technology (Collectively referred as the "Defendants")

On 5 October 2016, KTSB filed a Writ and Statement of Claim at the High Court of Kuala Lumpur against Australian Marine Technology ["AMT"], a company incorporated in Dubai, United Arab Emirates; and Eric Robert Bowra one of the guarantors in the project undertaken by KTSB for AMT, to claim for the sum of USD702,206.13 or equivalent to RM 2,893,089.26 (based on exchange rate of RM4.12 to USD1) together with interest and foreign exchange loss thereon ["Claimed Sum"].

KTSB was appointed by AMT to perform projects works in Dubai, United Arab Emirates and an invoice was issued to AMT on 19 August 2015 for the works done. KTSB had issued a letter of demand dated 23 May 2016 to AMT and two (2) guarantors in the project, namely, Mr Koh Chen Tien (NRIC No.:551002-04-5095) and Eric Robert Bowra (Passport No.:E4011930) to demand for the payment from AMT but to no avail from the defendants.

The Company has engaged a lawyer to file a Writ and Statement of Claim against the defendants by virtue of the defendants' obligation as principal debtor / guarantor in the said project for the Claimed Sum. In addition, the Company will pursue the matter separately with Mr Koh Chen Tien via a Settlement Agreement entered between KTSB and Mr Koh Chen Tien on 25 July 2016.

On 5 December 2016, the Court has fixed the action for further case management on 27 February 2017 for completing the service of the court papers on the Defendants. Further, the Court has set down the action for trial on 29 May 2017.

On 27 February 2017, the Court has fixed the action for further case management on 21 March 2017 to update the Court on service of the Writ and Statement of Claim on the Defendants.

On 21 March 2017, the Court allowed the Company's application to extend the validity of the Writ until 4 October 2017 pending service of the same by Ministry of Foreign Affairs of Malaysia. The trial date originally fixed on 29 May 2017 was vacated and re-fixed on 8 November 2017. The Court has fixed the action for the next case management on 29 May 2017.

On 29 May 2017, the Court has fixed the action for the final case management on 6 July 2017 to update the Court on the service of the Writ and Statement of Claim on the Defendants.

On 6 July 2017, the Court has fixed the action for the final case management on 17 July 2017 to effect service of the Writ and Statement of Claim on the Defendants.

On 17 July 2017, the Court refused to grant further extension of time for Ministry of Foreign Affairs of Malaysia to attempt service of the cause papers on the Defendants and struck off the Writ with liberty to file afresh.

On 12 Mar 2020, the Board of Directors wishes to announce that KTSB decided not to pursue the case as KTSB is still unable to track down AMT and Eric Robert Bowra to claim for the sum of USD702,206.13 together with interest and foreign exchange loss thereon.

As at to date, KTSB had received a total repayment sum of USD368,346.16 from Mr Koh Chen Tien via a Settlement Agreement dated 25 July 2016.

The Board is of the opinion that the decision made on not to pursue legal action is in the best interest of the Company and is not expected to have any significant financial impact on the Company's earnings and net assets for the financial year ending 31 December 2020 as the Company has made the necessary impairment for doubtful debts in the financial year ended 31 December 2016.

9 Material Litigation (cont'd)

(3) Commencement of adjudication proceeding between Mutiara (FE) Pte Ltd, a subcontractor, against Kelington Engineering (S) Pte Ltd ("KESG"), a wholly-owned subsidiary of Kelington Group Berhad

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

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

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

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

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

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

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

10 Dividends Payable

On 20 May 2020, the Board of Directors of KGB proposed the payment of second interim tax-exempt dividend of 1 sen per ordinary share in respect of the FYE 31 December 2019 amounting to RM3,114,591, payable on 3 August 2020.

11 Earnings Per Share

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

	Current Quarter Ended		Cumulative Year To Date Ended	
	31.3.2020	31.3.2019	31.3.2020	31.3.2019
Profit After Taxation attributable to owners of the company (RM'000)	4,055	4,843	4,055	4,843
Weighted average number of ordinary shares in issue ('000)	310,339	280,148	310,339	280,148
Basic Earnings Per Share (Sen)	1.30	1.73	1.30	1.73
Diluted Earnings Per Share (Sen) #	1.25	1.59	1.25	1.59

Note :

- Assuming the full exercise of 11,252,742 shares of Employee Shares Scheme.

KELINGTON GROUP BERHAD ("KGB")
 [Company No. 199901026486 (501386-P)]
 EXPLANATORY NOTES TO THE QUARTERLY REPORT
 FOR THE FIRST QUARTER ENDED 31 MARCH 2020

12 TRADE RECEIVABLES

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

	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
31.3.2020			
Not past due	34,067	(650)	33,417
Past due:			
- less than 3 months	14,807	(255)	14,552
- 3 to 6 months	5,452	(219)	5,233
- over 6 months	6,303	(239)	6,064
- over 1 year	656	(182)	474
Credit impaired	4,990	(4,990)	-
	<u>66,275</u>	<u>(6,535)</u>	<u>59,740</u>

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

	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
31.3.2019			
Not past due	38,209	(17)	38,192
Past due:			
- less than 3 months	14,476	(293)	14,183
- 3 to 6 months	2,064	(115)	1,949
- over 6 months	834	(73)	761
- over 1 year	4,626	(593)	4,033
Credit impaired	6,456	(6,456)	-
	<u>66,665</u>	<u>(7,547)</u>	<u>59,118</u>

13 DISCLOSURE OF REALISED AND UNREALISED PROFITS/ (LOSSES)

	Cumulative Year to date ended 31.3.2020 RM'000	Cumulative Year to date ended 31.3.2019 RM'000
Total retained profits of KGB:		
- Realised	72,398	56,634
- Unrealised	1,228	(737)
Total group retained profits as per consolidated accounts	<u>73,626</u>	<u>55,897</u>