

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
Statement of Profit or Loss and Other Comprehensive Income
For The 2nd Quarter Ended 30 June 2019

The unaudited financial results of Kelington Group Berhad and its subsidiaries (the "Group") for the period ended 30 June 2019 are as follow:-

Note	Unaudited Current Qtr Ended 30/06/2019 RM'000	Unaudited Previous Qtr Ended 30/06/2018 RM'000	+	-	%	Unaudited 6-months Period up to 30/06/2019 RM'000	Unaudited 6-months Period up to 30/06/2018 RM'000	+	-	%
Revenue	95,078	89,229	+		7	171,485	175,777	-		2
Cost of sales	(80,232)	(75,908)				(142,677)	(150,278)			
Gross profit	14,846	13,321	+		11	28,808	25,499	+		13
Other income	942	195				1,457	805			
Administrative expenses	(7,600)	(6,527)				(13,137)	(10,976)			
Selling and distribution expenses	(351)	(255)				(644)	(559)			
Other expenses	(430)	(1,220)				(2,230)	(2,517)			
Results from operating activities	7,407	5,514	+		34	14,254	12,252	+		16
Finance costs	(251)	(285)				(594)	(591)			
Profit before taxation for the financial period	7,156	5,229	+		37	13,660	11,661	+		17
Taxation	(2,143)	(892)				(3,869)	(3,130)			
Profit after taxation for the financial period	5,013	4,337	+		16	9,791	8,531	+		15
Other comprehensive income, net of tax										
Foreign currency translation	369	383				2,022	1,186			
	<u>369</u>	<u>383</u>				<u>2,022</u>	<u>1,186</u>			
Total comprehensive income for the period	5,382	4,720				11,813	9,717			
Profit attributable to:										
Shareholders of the Company	5,098	4,399	+		16	9,941	8,609	+		15
Non-controlling interests	(85)	(62)				(150)	(78)			
Profit after taxation for the financial period	5,013	4,337	+		16	9,791	8,531	+		15
Total comprehensive income attributable to:										
Shareholders of the Company	5,468	4,782				11,962	9,778			
Non-controlling interests	(86)	(62)				(149)	(61)			
Total comprehensive income for the period	5,382	4,720				11,813	9,717			
Basic earnings per ordinary share (sen):										
Basic earnings per share (sen)	B11	1.71	1.79			3.33	3.56			
Diluted earnings per share (sen)	B11	1.63	1.57			3.17	3.11			

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 2018 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
Statement of Financial Position
As at 30 June 2019

	Unaudited As At 30/06/2019 RM'000	Audited As At 31/12/2018 RM'000
ASSETS		
Non-current assets		
Property, plant & equipment	37,346	24,676
Goodwill on consolidation	6,390	6,348
	43,736	31,024
Current assets		
Inventories	177	177
Contract assets	58,824	46,390
Trade receivables	53,687	81,410
Other receivables, prepayments and deposits	12,160	16,913
Current tax assets	3,198	452
Fixed deposits with licensed banks	36,081	24,196
Cash and cash equivalents	49,818	42,914
	213,945	212,452
	257,681	243,476
TOTAL ASSETS		
EQUITY AND LIABILITIES		
Equity		
Share capital	70,648	50,422
Retained earnings	58,642	51,054
Other reserve	17,635	15,198
Treasury share	(534)	(534)
Total Equity attributable to Shareholders of the Company	146,391	116,140
Non-controlling interests	273	75
Total Equity	146,664	116,215
Non-current liabilities		
Deferred tax liabilities	92	92
Long-term borrowings	3,572	1,506
	3,664	1,598
Current liabilities		
Contract liabilities	35,342	22,247
Trade payables	33,719	60,321
Other payables and accruals	17,293	19,419
Current tax liabilities	8,872	5,407
Short term borrowings	12,127	15,614
Dividend payable	-	2,655
	107,353	125,663
Total liabilities	111,017	127,261
	257,681	243,476
TOTAL EQUITY AND LIABILITIES		
Net Assets Per Share Attributable to ordinary Equity holders of the company (RM)	0.4763	0.4345

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 2018 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
Condensed Consolidated Statements of Changes in Equity
For The 2nd Quarter Ended 30 June 2019

	<----- 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	Total RM'000	RM'000	RM'000
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 period	-	-	-	-	-	9,941	9,941	(150)	9,791
Other comprehensive expense, net of tax:									
- Foreign currency translation	-	-	-	2,021	-	-	2,021	1	2,022
Total comprehensive (expense)/ income for the financial period	-	-	-	2,021	-	9,941	11,962	(149)	11,813
Contributions by and distribution to owners of the company:									
- Investment in subsidiaries:									
- Ace Gases Sdn Bhd	-	-	-	-	-	-	-	267	267
- Ace Gases Marketing Sdn Bhd	-	-	-	-	-	-	-	80	80
- Exercise of convertible warrants	20,226	-	-	-	-	-	20,226	-	20,226
- Dividend paid for the period	-	-	-	-	-	(2,353)	(2,353)	-	(2,353)
- Employees' share scheme reserve	-	-	416	-	-	-	416	-	416
Total recognised income and expense for the period	20,226	-	416	-	-	(2,353)	18,289	347	18,636
As at 30 June 2019	70,648	9,217	1,801	6,617	(534)	58,642	146,391	273	146,664
As at 1 January 2018	25,826	8,985	696	4,432	(534)	38,839	78,244	231	78,475
Profit after taxation for the financial period	-	-	-	-	-	8,609	8,609	(78)	8,531
Other comprehensive income, net of tax:									
- Foreign currency translation differences	-	-	-	1,169	-	-	1,169	17	1,186
Total comprehensive income for the financial period	-	-	-	1,169	-	8,609	9,778	(61)	9,717
Contributions by and distribution to owners of the company:									
- Employees' share scheme reserve	-	-	650	-	-	-	650	-	650
- Investment in a subsidiary:									
- Ace Gases Sdn Bhd	-	-	-	-	-	-	-	300	300
- Issuance of ordinary shares via private placement	12,168	-	-	-	-	-	12,168	-	12,168
- Utilisation of share premium against expenses incurred upon issuance of shares	(260)	-	-	-	-	-	(260)	-	(260)
Total transactions with owners	11,908	-	650	-	-	-	12,558	300	12,858
As at 30 June 2018	37,734	8,985	1,346	5,601	(534)	47,448	100,580	470	101,050

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 2018 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
Condensed Consolidated Statement of Cash Flow
For The Second Quarter Ended 30 June 2019

	Unaudited 6-Months Ended 30/06/2019 RM'000	Unaudited 6-Months Ended 30/06/2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	13,660	11,661
Adjustments for:-		
Depreciation of property, plant and equipment	1,143	854
Equipment written off	5	13
Impairment loss on trade receivables	331	520
Interest expense	508	526
Interest income	(137)	(195)
(Gain)/ Loss on disposal of equipment	(1)	(23)
Share-based payments	416	650
Writeback of impairment loss on trade receivables	(703)	-
Utilisation of share premium	-	(260)
Unrealised loss on foreign exchange	392	1,321
	<hr/>	<hr/>
Operating profit before working capital changes	15,614	15,067
Increase in inventory	-	969
Decrease in amounts owing by/to contract customers	661	7,560
Decrease/ (Increase) in trade and other receivables	32,456	(11,068)
Decrease in trade and other payables	(28,728)	(14,017)
	<hr/>	<hr/>
CASH FROM/(FOR) OPERATIONS	20,003	(1,489)
Income tax paid	(3,150)	(1,940)
Interest paid	(508)	(526)
Interest received	137	195
	<hr/>	<hr/>
NET CASH FROM/(FOR) OPERATING ACTIVITIES	16,482	(3,760)
CASH FLOWS FOR INVESTING ACTIVITIES		
Purchase of plant and equipments	(13,938)	(1,729)
Proceeds from disposal of equipment	-	45
Placement of fixed deposit pledged with licensed bank	(107)	(824)
Capital contribution from non-controlling interests	347	300
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NET CASH FOR INVESTING ACTIVITIES	(13,698)	(2,208)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(5,009)	-
Repayment of revolving credit	(3,035)	(13,500)
Net drawdown/ (repayment) of hire purchase obligations	2,973	(130)
Repayment of term loan	(1,104)	(460)
(Repayment)/ Drawdown of invoice financing	(255)	2,461
Drawdown of foreign currency loan	-	1,112
Proceeds from private placement	-	12,168
Proceeds from exercise of warrants	20,227	-
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	13,797	1,651
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	16,582	(4,317)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	2,100	1,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD	52,202	49,533
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	70,884	46,796
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Cash and cash equivalents at the end of financial period comprise the following:		
Cash and bank balances	49,818	30,336
Fixed deposits	36,081	29,913
	<hr/>	<hr/>
	85,899	60,249
Less: fixed deposits pledged with licensed banks	(15,015)	(13,453)
	<hr/>	<hr/>
	70,884	46,796

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 2018 and the accompanying explanatory notes enclosed to the interim financial statements.

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
EXPLANATORY NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2019

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 2018. 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 2018.

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 2018.

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 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 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 2018.

3. Segmental Information

The operating segments reporting is not presented as the Group principally involved in the business of providing engineering services and general trading specifically in the provision of ultra-high purity gas and chemical delivery systems solutions.

Geographical information

In presenting information on the basis of geographical segments, segment revenue and results are based on the geographical location of customers. The carrying value of segment assets are based on the geographical location of the assets.

	Revenue		Non-current Assets	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
	RM'000	RM'000	RM'000	RM'000
Malaysia	45,710	42,595	32,739	13,431
China	51,410	86,411	1,577	1,958
Taiwan	4,705	6,018	220	253
Singapore	68,944	39,805	9,200	7,675
Indonesia	716	947	-	-
Other	-	1	-	-
	171,485	175,777	43,736	23,317

4. Unusual Items

There were no unusual items affecting assets, liabilities, equity, net income or cash flows during the current quarter ended 30 June 2019.

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

KGB paid a second interim tax-exempt dividend of 0.8 sen per ordinary share amounting to RM2,353,052 in respect of the FYE 31 December 2018 on 3 June 2019.

8. Valuation of Property, Plant and Equipment

Property, plant and equipment of the Group were not revalued during the current quarter under review. As at 30 June 2019, all the property, plant and equipment were stated at cost less accumulated depreciation.

9. Movement of Debt And Equity Securities

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

Exercise of Warrants

During the quarter under review, KGB increased its number of issued and paid up shares by the exercise of 16,544,919 convertible warrants at an issue price of RM0.50.

10. Changes in Composition of the Group

Save as disclosed in the following, there has been no change in the composition of the Group during the current quarter under review.

Incorporation of Kelington Engineering System Integration (ChuZhou) Co., Ltd ("KESI")

On 1 April 2019, KGB wholly-owned subsidiary, Kelington Engineering (Shanghai) Co., Ltd., has incorporated a wholly-owned subsidiary, namely Kelington Engineering System Integration (ChuZhou) Co., Ltd (Company No. 91341171MA2TKM1X2U) ("KESI") with a registered capital of RMB50,000,000. As at 30 June 2019, KESI's paid up capital is RMB6 million. KESI's principal activity is to carry out the business of fabrication of gas and liquid delivery equipment, mechanical parts for semiconductor industry.

11. Discontinued Operation

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

12. Capital Commitments

Saved as disclosed in the following, 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.

	As at
	30/06/2019
	RM'000
Purchase of plant & equipment	<u>11,217</u>

13. Changes in Contingent Liabilities and Contingent Assets

Saved as disclosed in the following, there is no other contingent liabilities and contingent assets as at quarter end 30 June 2019:

	As at	As at
	30/06/2019	30/06/2018
	Unaudited	Unaudited
	RM'000	RM'000
Contingent liabilities		
Bank guarantee and insurance bond given to third party as performance bond or warranty bond	<u>25,041</u>	<u>9,402</u>

14. Material Subsequent Events

Saved as disclosed in the following, there has been no material subsequent events after the quarter ended 30 June 2019:

(i) Employee Shares Scheme ("ESS")

On 4 July and 31 July 2019, the Company increased its issued and paid up capital by the issuance of 3,553,480 ordinary shares by way of ESS.

(ii) Dividend Payable

On 22 August 2019, the Board of Directors of KGB proposed the payment of first interim tax-exempt dividend of 1 sen per ordinary share in respect of the FYE 31 December 2019.

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

1 Review Of Performance

	Current Year Quarter 30/06/2019 RM'000	Preceding Year Corresponding Quarter 30/06/2018 RM'000	Changes		Current Year-to-date 30/06/2019 RM'000	Preceding Year Corresponding Period 30/06/2018 RM'000	Changes	
			Amount RM'000	%			Amount RM'000	%
Revenue	95,078	89,229	5,849	7%	171,485	175,777	(4,292)	-2%
Operating profit	7,407	5,514	1,893	34%	14,254	12,252	2,002	16%
Profit before tax	7,156	5,229	1,927	37%	13,660	11,661	1,999	17%
Profit after tax	5,013	4,337	676	16%	9,791	8,531	1,260	15%
Profit attributable to shareholders of the company	5,098	4,399	699	16%	9,941	8,609	1,332	15%

(a) Current Quarter vs. Previous Year Corresponding Quarter

	Revenue		% of total	Revenue	
	Current Year Quarter 30/06/2019 RM'000			Preceding Year Corresponding Quarter 30/06/2018 RM'000	% of total
Ultra High Purity	55,563	59%	75,046	84%	
Process Engineering	33,253	35%	9,512	11%	
General Contracting	5,029	5%	3,698	4%	
Industrial Gases	1,233	1%	972	1%	
Total	95,078		89,229		

The Group's revenue for the quarter ended 30 June 2019 ("2Q2019") increased by 7% to RM95.1 million against RM89.2 million from the same period last year ("2Q2018"). The increase was mainly driven by higher contribution from the Singapore and Malaysia operations.

During the quarter under review, Singapore operations was the largest revenue contributor at RM37.9 million or 40% of total revenue, rising 45% year-on-year ("YoY") from RM26.2 million in 2Q2018, on the back of higher projects completion from the Process Engineering division. Revenue from China came in second at 31% or RM29.4 million of total revenue in 2Q2019, from RM39.7 million in 2Q2018. The decrease was mainly due to lower progress billing from a large UHP project in China, which is near to completion.

The UHP division remained as the primary contributor to the Group's revenue, representing 59% of total revenue at RM55.6 million in 2Q2019. Meanwhile, revenue from the Process Engineering division recorded the highest growth in 2Q2019, it grew more than three folds to RM33.2 million as compared to RM9.5 million in 2Q2018, making it the second largest revenue contributor to the Group (35%). This was followed by General Contracting (5%) and Industrial Gases (1%).

Gross profit increased 11% YoY in 2Q2019 to RM14.8 million from RM13.3 million in 2Q2018. Gross profit margins improved to 16% from 15%, on the back of higher margin from better project mix.

Subsequently, profit before tax ("PBT") recorded an increase of 37% YoY to RM7.2 million in 2Q2019 against RM5.2 million in 2Q2018, with PBT margins at 8% from 6% in the previous year. The Group's profit after tax ("PAT") rose 16% to RM5.0 million versus RM4.3 million in 2Q2018.

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

	Revenue 1H2019 RM'000		% of total	Revenue 1H2018 RM'000	
					% of total
Ultra High Purity	99,606	58%	138,392	79%	
Process Engineering	58,640	34%	24,059	14%	
General Contracting	10,718	6%	11,712	7%	
Industrial Gases	2,521	1%	1,614	1%	
Total	171,485		175,777		

For the period ended 30 June 2019 ("1H2019"), the Group's revenue decreased marginally to RM171.5 million as compared to RM175.8 million in the previous year's corresponding period ("1H2018"), mainly due to the lower progress billing recognized from a large UHP project in China.

Revenue from the UHP division remain as the anchor revenue contributor at 58% in 1H2019, followed by Process Engineering (34%), General Contracting (6%) and Industrial Gases (1%).

In 1H2019, revenue contribution by geographical segments were led by Singapore at 40% or RM68.9 million, up 73% YoY from RM39.8 million in 1H2018 driven by higher contribution from the Process Engineering division. Revenue from China was the second largest at 30% followed by Malaysia (27%) and Taiwan (3%).

Meanwhile, gross profit improved by 13% YoY to RM28.8 million in 1H2019 against RM25.5 million from same period last year. Gross profit margin also increased concurrently to 17% from 15% in 1H2018.

Subsequently, PBT grew 17% YoY to RM13.7 million as compared to RM11.7 million in 1H2018, resulting in PBT margin rising to 8% from 7% in 1H2018. PAT rose 15% to RM9.8 million in 1H2019 from RM8.5 million in 1H2018.

1 Review Of Performance (Cont'd)

(c) Variation of Results Against Preceding Quarter

	Current Quarter	Immediate Preceding Quarter	Changes	
	30/06/2019 RM'000	31/03/2019 RM'000	Amount RM'000	%
Revenue	95,078	76,407	18,671	24%
Operating profit	7,407	6,847	560	8%
Profit before tax	7,156	6,504	652	10%
Profit after tax	5,013	4,778	235	5%
Profit attributable to shareholders of the company	5,098	4,843	255	5%

The Group's revenue increased 24% to RM95.1 million in 2Q2019 as compared to RM76.4 million in the preceding quarter ended 31 March 2019 ("1Q2019"). The first quarter of the year is traditionally a weaker quarter as compared to the preceding quarter due to the festive season which affects our operations across all countries.

PBT increased to RM7.2 million in 2Q2019 as compared to RM6.5 million in 1Q2019. The Group's PAT stood at RM5.0 million in 2Q2019 from RM4.8 million in 1Q2019.

(d) Statement of Financial Position

Financial Indicators	As at 30/06/2019 Unaudited RM'000	As at 31/12/2018 Audited RM'000	As at 30/06/2018 Audited RM'000
Total assets	257,681	243,476	244,205
Total equity	146,664	116,215	101,050
Debt	15,699	17,120	20,258
Deposits, cash & bank balance	85,899	67,110	60,249
Net cash	70,200	49,990	39,991
Debt-to-Equity	0.11	0.15	0.20

As at 30 June 2019, the Group's shareholder equity (excluding non-controlling interests) rose 26% to RM146.4 million from RM116.1 million. The increase was mainly attributable to the exercise of convertible warrants and continuous quarterly profit.

The Group's total borrowings were pared down by 8% to RM15.7 million as at 30 June 2019 from RM17.1 million as at 31 December 2018.

Correspondingly, the Group's financial position strengthened to a net cash position of RM70.2 million as at 30 June 2019, as compared to RM50.0 million as at 31 December 2018. Total gross cash in hand stood at RM85.9 million exceeding total debt of RM15.7 million. Net cash per share stood at 23 sen.

The majority of the Group's debt are short term in nature and are used for project financing purposes and capital expenditure for new industrial gas business division.

2 Commentary Of Prospects

The Group's outlook remains bright on the back of strong replenishment of projects, while we look forward to the commencement of our new business division, manufacturing of liquid carbon dioxide.

We continue to gain traction in our project flow as we clinched an addition RM81 million worth of projects in 2Q2019, boosting our total new project orders to RM227 million in FY2019. A large bulk of the project orders is from the UHP and Process Engineering division. Inclusive of carried forward projects, Kelington's total orderbook grew to RM486 million, of which RM312 million remains outstanding. We expect the Group's performance to continue be driven by the UHP division in Singapore and China in FY2019.

Furthermore, the Group made encouraging progress in its expansion plans for the Industrial Gases division. The commissioning of the manufacturing of liquid carbon dioxide ("LCO2") business is on track, with production expected to commence this year. We anticipate positive contribution from this new business from FY2020 onwards.

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 2019 in any public document and hence this information is not applicable.

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
EXPLANATORY NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2019

4 Profit for the Period

	Quarter ended		Year-to-date ended	
	30/06/2019 RM'000	30/06/2018 RM'000	30/06/2019 RM'000	30/06/2018 RM'000
Profit for the period is arrived at after crediting/ (charging):				
Interest income	78	108	137	195
Interest expense	(390)	(253)	(508)	(526)
Impairment loss on trade receivables:				
- specified	-	(520)	-	(520)
- in accordance to MFRS 9	(133)	-	(331)	-
Depreciation and amortisation	(579)	(464)	(1,143)	(854)
Equipment written off	(5)	(13)	(5)	(13)
Unrealised Foreign exchange (loss)/gain	254	(400)	(392)	(1,321)
Realised Foreign exchange (loss)/gain	(74)	6	(191)	169
Gain on disposal of equipment	-	28	1	23
Writeback on impairment loss on trade receivables	657	-	703	-

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

5 Taxation

	Current quarter ended 30/06/19 RM'000	Cumulative Year to date ended 30/06/19 RM'000
Current tax:		
- for the financial period	2,143	3,869

The effective tax rate of the Group for the current financial period under review is higher than the statutory tax rate mainly due to certain expenses being disallowed for taxation purposes and profits in certain subsidiary companies are separately assessed for tax and not relieved by losses in other companies within the Group as well as 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.

The status of utilisation of proceeds derived from the private placement as below:

Utilisation Purposes	Timeframe for Utilisation	Proposed Utilisation RM'000	Actual Utilisation RM'000	Balance RM'000	Deviation		Explanation
					RM'000	%	
To part finance the acquiring of carbon dioxide gas purification plant	Within 24 months from the date of listing	2,854	(2,854)	-	-	-	
To part finance the subsequent phase of the construction of carbon dioxide gas purification plant, gas manufacturing facilities and gas delivery systems	Within 24 months from the date of listing	3,805	(3,805)	-	-	-	
To part finance the acquisition of assets for the operations of the industrial gas business division	Within 24 months from the date of listing	6,522	(4,702)	1,820	-	-	
General working capital	Within 24 months from the date of listing	4,279	(3,307)	972	-	-	
Expenses relating to the Proposed Private Placement	Upon completion	380	(362)	18	18	5%	Over estimated of private placement expenses. The excess will be used for general working capital.
		17,840	(15,030)	2,810			

7 Derivative Financial Instruments

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

8 Group Borrowings

The borrowings as at 30 June 2019 versus 30 June 2018 are as follows:

	As At 30 June 2019					
	Current Liabilities		Non-current Liabilities		Total Borrowings	
	Foreign Currency ('000)	RM'000	Foreign Currency ('000)	RM'000	Foreign Currency ('000)	RM'000
Secured						
Hire purchase	SGD 23	977	SGD 267	3,572		4,549
Term Loan	NTD 9,860	1,325				1,325
Import Loan/Invoice financing	RMB 13,937	9,825				9,825
Unsecured						
Nil	-	-	-	-	-	-
		12,127		3,572		15,699
Weighted average interest rate of borrowings						5.04%
Proportion of borrowings between fixed interest rate and floating interest rate						37%:63%

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

	As At 30 June 2018					
	Current Liabilities		Non-current Liabilities		Total Borrowings	
	Foreign Currency ('000)	RM'000	Foreign Currency ('000)	RM'000	Foreign Currency ('000)	RM'000
Secured						
Hire purchase	SGD 44	317	SGD 118	899	-	1,216
Term Loan	NTD 17,648	2,454	NTD 5,996	811	NTD 23,644	3,265
Foreign currency loan	USD 284	1,112	-	-	USD 284	1,112
Import Loan/Invoice financing	RMB 24,037	14,665	-	-	RMB 24,037	14,665
Unsecured						
Nil	-	-	-	-	-	-
		18,548		1,710		20,258
Weighted average interest rate of borrowings						5.28%
Proportion of borrowings between fixed interest rate and floating interest rate						18%:82%

The decrease in borrowing during the period ended 30 June 2018 is mainly due to repayment of revolving credit and completion of few major projects in Malaysia.

9 Material Litigation

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

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

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

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

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

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

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

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

9 Material Litigation (cont'd)

(2) 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.

The timeframe to attempt service of the cause papers by the Consulate General of Malaysia is out of the Company's control and the Company will make further announcement if the next cause of action is decided, including the possibility of file afresh.

10 Dividends Payable

On 22 August 2019, the Board of Directors of KGB proposed the payment of first interim tax-exempt dividend of 1 sen per ordinary share in respect of the FYE 31 December 2019.

11 Earnings Per Share

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

	Current Quarter Ended		Cumulative Year To Date Ended	
	30/06/2019	30/06/2018	30/06/2019	30/06/2018
Profit After Taxation attributable to owners of the company (RM'000)	5,098	4,399	9,941	8,609
Weighted average number of ordinary shares in issue ('000)	297,532	245,434	298,413	241,716
Basic Earnings Per Share (Sen)	1.71	1.79	3.33	3.56
Diluted Earnings Per Share (Sen) #	1.63	1.57	3.17	3.11

Note :

The convertible warrants had expired on 12 June 2019.

- Assuming the full exercise of 14,806,222 shares of Employee Shares Scheme.

KELINGTON GROUP BERHAD ("KGB")
(Company No. 501386-P)
EXPLANATORY NOTES TO THE QUARTERLY REPORT
FOR THE SECOND QUARTER ENDED 30 JUNE 2019

12 TRADE RECEIVABLES

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

	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
30/6/2019			
Not past due	27,784	(1,216)	26,568
Past due:			
- less than 3 months	18,139		18,139
- 3 to 6 months	3,033		3,033
- over 6 months	1,463		1,463
- over 1 year	10,012	(5,528)	4,484
	<u>60,431</u>	<u>(6,744)</u>	<u>53,687</u>

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

	Gross Amount RM'000	Collective Impairment RM'000	Carrying Value RM'000
30/6/2018			
Not past due	64,091	(41)	64,050
Past due:			-
- less than 3 months	19,627		19,627
- 3 to 6 months	201		201
- over 6 months	61		61
- over 1 year	12,799	(6,879)	5,920
	<u>96,779</u>	<u>(6,920)</u>	<u>89,859</u>

13 DISCLOSURE OF REALISED AND UNREALISED PROFITS/ (LOSSES)

	Cumulative Year to date ended 30/06/19 RM'000	Cumulative Year to date ended 30/06/18 RM'000
Total retained profits of KGB:		
- Realised	59,127	49,465
- Unrealised	(485)	(2,017)
Total group retained profits as per consolidated accounts	<u>58,642</u>	<u>47,448</u>