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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)

**UNAUDITED THIRD QUARTERLY RESULTS
ANNOUNCEMENT FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2020**

The board (the "Board") of directors ("Directors") of Pentamaster International Limited (the "Company") is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively, "we", "us", "our" or the "Group") for the nine months ended 30 September 2020 (the "Period"), together with the comparative figures for the nine months ended 30 September 2019 ("Previous Corresponding Period") (*expressed in Ringgit Malaysia "MYR"*).

The unaudited third quarterly 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 nine months ended 30 September	2020	2019
	(Unaudited)	(Unaudited)
	MYR'000	MYR'000
Revenue	308,378	361,612
Gross profit	105,816	131,157
Profit for the period	79,151	95,397
Earnings per share (sen) Basic and diluted	4.95	5.96

- Revenue of the Group was MYR308.4 million, representing a decrease of 14.7% over the Previous Corresponding Period.
- Profit for the Period stood at approximately MYR79.2 million, representing a decrease of approximately 17.0% over the Previous Corresponding Period.
- Cash and cash equivalents of MYR297.2 million as at 30 September 2020 against MYR304.0 million as at 31 December 2019.

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

FOR THE THREE MONTHS AND NINE MONTHS ENDED 30 SEPTEMBER 2020

	Individual Quarter 3 Months Ended		Cumulative Year Financial Period Ended	
	30/9/2020 (Unaudited) MYR'000	30/9/2019 (Unaudited) MYR'000	30/9/2020 (Unaudited) MYR'000	30/9/2019 (Unaudited) MYR'000
Revenue	105,314	124,633	308,378	361,612
Cost of goods sold	(70,453)	(78,365)	(202,562)	(230,455)
Gross profit	34,861	46,268	105,816	131,157
Other income	5,518	3,582	9,260	9,616
Administrative expenses	(10,884)	(14,549)	(24,906)	(34,255)
Distribution costs	(2,011)	(1,930)	(5,834)	(5,348)
Other operating expenses	(47)	(14)	(83)	(159)
Operating profit	27,437	33,357	84,253	101,011
Finance costs	(36)	(42)	(111)	(151)
Share of results of an associate	(218)	(181)	(887)	(307)
Profit before taxation	27,183	33,134	83,255	100,553
Taxation	(738)	533	(4,104)	(5,156)
Profit and total comprehensive income for the period	26,445	33,667	79,151	95,397
Earnings per share attributable to owners of the Company (sen):-				
- Basic and diluted	1.65	2.10	4.95	5.96

The unaudited condensed consolidated statement of profit or loss and other comprehensive income for the three months and nine months ended 30 September 2020 should be read in conjunction with the audited financial statements for the year ended 31 December 2019.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION**
AS AT 30 SEPTEMBER 2020

	As at 30/9/2020 (Unaudited) MYR'000	As at 31/12/2019 (Audited) MYR'000
ASSETS		
Non-current assets		
Property, plant and equipment	80,570	78,088
Leasehold land	7,367	7,476
Goodwill	4,495	4,495
Intangible assets	49,927	30,985
Interest in an associate	4,875	4,062
Other receivables, deposits and prepayments	11,210	21,461
	<u>158,444</u>	<u>146,567</u>
Current assets		
Inventories	31,418	59,458
Trade receivables	116,940	61,692
Other receivables, deposits and prepayments	10,185	4,253
Amount due from ultimate holding company	-	2
Amount due from a fellow subsidiary	-	6
Derivative financial assets	2,450	2,395
Tax recoverable	23	29
Cash and cash equivalents	297,216	303,955
	<u>458,232</u>	<u>431,790</u>
Total assets	<u>616,676</u>	<u>578,357</u>

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF
FINANCIAL POSITION (CONTINUED)**

AS AT 30 SEPTEMBER 2020

	As at 30/9/2020 (Unaudited) MYR'000	As at 31/12/2019 (Audited) MYR'000
EQUITY AND LIABILITIES		
EQUITY		
Share capital	8,054	8,054
Reserves	<u>493,670</u>	<u>430,869</u>
Total equity	<u>501,724</u>	<u>438,923</u>
LIABILITIES		
Current liabilities		
Trade payables	47,300	31,478
Other payables, accruals and provisions	36,321	40,023
Contract liabilities	13,320	49,559
Amount due to a fellow subsidiary	4	-
Bank borrowing	3,095	3,362
Provision for taxation	<u>2,515</u>	<u>1,968</u>
	<u>102,555</u>	<u>126,390</u>
Non-current liabilities		
Deferred income	1,828	2,072
Other payables, accruals and provisions	5,598	5,598
Deferred tax liabilities	<u>4,971</u>	<u>5,374</u>
	<u>12,397</u>	<u>13,044</u>
Total liabilities	<u>114,952</u>	<u>139,434</u>
Total equity and liabilities	<u>616,676</u>	<u>578,357</u>

The unaudited condensed consolidated statement of financial position as at 30 September 2020 should be read in conjunction with the audited financial statements for the year ended 31 December 2019.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

	Equity attributable to owners of the Company						
	Share capital	Shares held for share award scheme	Share premium	Capital reserve	Retained profits	Proposed final dividend	Total equity
	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000
As at 1 January 2020 (Audited)	8,054	-	84,936	44,477	288,424	13,032	438,923
Profit and total comprehensive income for the period	-	-	-	-	79,151	-	79,151
<i>Transactions with owners:</i>							
2019 final dividends declared	-	-	-	-	(418)	(13,032)	(13,450)
Purchase of shares for share award scheme	-	(2,900)	-	-	-	-	(2,900)
As at 30 September 2020 (Unaudited)	8,054	(2,900)	84,936	44,477	367,157	-	501,724

	Equity attributable to owners of the Company						
	Share capital	Shares held for share award scheme	Share premium	Capital reserve	Retained profits	Proposed final dividend	Total equity
	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000	MYR'000
As at 1 January 2019 (Audited)	8,054	-	84,936	44,477	170,479	12,433	320,379
Profit and total comprehensive income for the period	-	-	-	-	95,397	-	95,397
<i>Transaction with owners:</i>							
2018 final dividends declared	-	-	-	-	(404)	(12,433)	(12,837)
As at 30 September 2019 (Unaudited)	8,054	-	84,936	44,477	265,472	-	402,939

The unaudited condensed consolidated statement of changes in equity for the nine months ended 30 September 2020 should be read in conjunction with the audited financial statements for the year ended 31 December 2019.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

	9 Months ended 30/9/2020 (Unaudited) MYR'000	9 Months ended 30/9/2019 (Unaudited) MYR'000
Cash flows from operating activities		
Profit before taxation	83,255	100,553
Adjustments for :		
Amortisation of intangible asset	1,887	560
Amortisation of leasehold land	109	109
Expected credit loss (“ECL”) allowance on trade receivable	3,649	2,485
Bad debts written off	2	-
Deferred income released	(245)	(170)
Depreciation	3,230	2,564
Interest expense	111	150
Interest income	(4,783)	(4,735)
Gain on disposal of property, plant and equipment	(3)	(96)
Property, plant & equipment written off	221	-
Gain from changes in fair value of foreign currency forward contracts	(54)	(4,523)
Inventory written down –addition	256	2,395
Inventory written down –reversal	(1,646)	(411)
Share of results of an associate	887	307
Unrealised (gain)/loss on foreign exchange	(2,429)	123
Operating profit before working capital changes	84,447	99,311
Decrease in inventories	29,429	76,217
(Increase)/decrease in receivables	(53,601)	5,005
Increase/(decrease) in payables	12,248	(11,145)
Decrease in contract liabilities	(36,238)	(30,867)
Decrease in ultimate holding company balance	2	-
Net change in a fellow subsidiary’s balance	10	3
Cash generated from operations	36,297	138,524
Interest paid	(111)	(150)
Tax paid	(3,560)	(6,046)
Tax refunded	9	387
Net cash generated from operating activities	32,635	132,715

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

	9 Months ended 30/9/2020 (Unaudited) MYR'000	9 Months ended 30/9/2019 (Unaudited) MYR'000
Cash flows from investing activities		
Interest received	4,783	4,735
Proceeds from disposal of property, plant and equipment	30	215
Purchase of intangible assets	(21,231)	(5,576)
Purchase of property, plant and equipment	(5,959)	(6,786)
Investment in an associate	(1,700)	(1,750)
Net cash outflow on acquisition of a subsidiary	-	(15,379)
Net cash used in investing activities	(24,077)	(24,541)
Cash flows from financing activities		
Repayments to ultimate holding company	-	(8,212)
Dividend paid	(13,450)	(12,837)
Repayment of finance lease liabilities	-	(36)
Purchase of share for share award scheme	(2,900)	-
Repayment of term loan	(267)	(227)
Net cash used in financing activities	(16,617)	(21,312)
Net (decrease)/increase in cash and cash equivalents	(8,059)	86,862
Cash and cash equivalents at the beginning of the period	303,955	217,705
Effect of foreign exchange rate changes	1,320	(586)
Cash and cash equivalents at the end of the period	297,216	303,981

MANAGEMENT DISCUSSION AND ANALYSIS

With nine months into the current challenging pandemic year, the Group's revenue came in at MYR308.4 million from the following reportable segments as below:

- (i) Automated test equipment ("ATE"): Designing, development and manufacturing of standard and non-standard automated equipment.
- (ii) Factory automation solutions ("FAS"): Designing, development and installation of integrated automated manufacturing solutions.

The performance of the respective operating segments for the nine months ended 30 September 2020 as compared to the Previous Corresponding Period is outlined as below:

Unaudited results for the nine months ended 30 September 2020

	Automated test equipment MYR'000	Factory automation solutions MYR'000	Adjustment MYR'000	<i>Note</i>	Total MYR'000
Revenue					
External customers	194,369	114,009			308,378
Inter-segment revenue	8,961	1,996	(10,957)	<i>(i)</i>	-
Total revenue	<u>203,330</u>	<u>116,005</u>			<u>308,378</u>
Results					
Segment results	62,569	18,189	(1,288)		79,470
Interest income	4,624	159			4,783
Interest expense	(111)	-			(111)
Share of results of an associate	-	-	(887)		(887)
Profit before taxation	<u>67,082</u>	<u>18,348</u>			<u>83,255</u>
Taxation	<u>(4,064)</u>	<u>(40)</u>			<u>(4,104)</u>
Profit for the period	<u><u>63,018</u></u>	<u><u>18,308</u></u>			<u><u>79,151</u></u>

Unaudited results for the nine months ended 30 September 2019

	Automated test equipment MYR'000	Factory automation solutions MYR'000	Adjustment MYR'000	Note	Total MYR'000
Revenue					
External customers	313,734	47,878			361,612
Inter-segment revenue	7,718	8,298	(16,016)	(i)	-
Total revenue	<u>321,452</u>	<u>56,176</u>			<u>361,612</u>
Results					
Segment results	90,943	8,017	(2,685)		96,275
Interest income	4,376	360			4,736
Interest expense	(151)	-			(151)
Share of results of an associate	-	-	(307)		(307)
Profit before taxation	<u>95,168</u>	<u>8,377</u>			<u>100,553</u>
Taxation	<u>(5,120)</u>	<u>(36)</u>			<u>(5,156)</u>
Profit for the period	<u>90,048</u>	<u>8,341</u>			<u>95,397</u>

Note to segment information:

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

Overall, the Group recorded a lower revenue at MYR308.4 million for the nine months ended 30 September 2020 as compared to MYR361.6 million achieved in the Previous Corresponding Period, representing a decrease of 14.7%. The Group continued to reflect a better contribution mix by segment as opposed to the Previous Corresponding Period with ATE and FAS segments each contributing approximately 63.0% (nine months ended 30 September 2019: 86.8%) and 37.0% (nine months ended 30 September 2019: 13.2%) to the Group's total revenue during the nine months ended 30 September 2020.

ATE segment

This segment's revenue decreased by MYR118.1 million to MYR203.3 million for the nine months ended 30 September 2020 as compared to the Previous Corresponding Period. The decrease in revenue by approximately 36.7% was mainly due to the elements of deferment of a timely revenue recognition caused by the delay in project shipment and site installation impacted by the global travelling restriction. In the current third quarter where governmental efforts to curb Covid-19 in Malaysia where the Group operates in, has somewhat shifted from containment to recovery, the Group was able to resume its full production capacity and workforce run-rate in fulfilling its order backlog. Additionally, with cross border business travelling allowed on a rigid, limited and conditional basis by the government, such

approach has not provided the Group with the optimal shipment and installation work progress required for revenue recognition. This has, to a certain degree, resulted in certain projects experiencing push back in its last milestone in the current quarter. In the remaining months of 2020, subject to the Covid-19 pandemic situation, the Group will continue to take the necessary steps and approaches to complete the process while protecting the safety and health of its employees. As it is, within the ATE segment, the Group continued to witness a more diverse end market application and industry base for its test equipment and solutions during the Period.

FAS segment

Revenue from the FAS segment for the nine months ended 30 September 2020 chalked a commendable growth by approximately 106.5% from MYR56.2 million recorded in the Previous Corresponding Period to MYR116.0 million. The Group continued to witness growing demand for its proprietary i-ARMS (intelligent Automated Robotic Manufacturing System) solutions given the increasing adoption of automation technology, digitisation and Industry 4.0 revolution which have significantly stimulated the demand for automation across a wider spectrum of industries. Additionally, the FAS segment has also benefited from the acquisition of TP Concept Sdn. Bhd. with its revenue contribution and its strategic contribution towards the Group's drastic progress into the medical devices segment.

The following table sets out revenue breakdown by customers' segment for both the ATE and FAS segments:

For the nine months ended 30 September	2020 (Unaudited)		2019 (Unaudited)	
	MYR'000	%	MYR'000	%
Electro-Optical (Previously known as telecommunications)	121,035	39.3	251,803	69.6
Automotive	54,615	17.7	48,339	13.4
Consumer and industrial products	53,098	17.2	30,990	8.6
Semiconductor	42,860	13.9	29,463	8.1
Medical devices	36,770	11.9	1,017	0.3
	<u>308,378</u>	<u>100.0</u>	<u>361,612</u>	<u>100.0</u>

Gross margin

The Group achieved a gross margin of 33.1% and 34.3% for the third quarter and the nine months ended 30 September 2020 respectively, as opposed to the gross margin of 37.1% and 36.3% for the third quarter and the Previous Corresponding Period in year 2019. The overall contraction in the Group's gross margin as compared to the same period last year was a result of lower economies of scale achieved during the Period. In addition, the contraction in gross margin was also attributable to the sales mix of the Group, whereby the delivery of prototype projects for proof of concept has a higher contribution to the Group's revenue. In general, gross margin for these projects were lower compared to repeat orders given the incurrence of prototype expenses covering the design and development costs.

Other income

The Group's other income decreased slightly from MYR9.6 million recorded in the Previous Corresponding Period to MYR9.3 million recorded for the nine months ended 30 September 2020. During the Period, the Group recorded a gain on foreign exchange of approximately MYR3.5 million which arose mainly from the appreciation of the U.S. Dollar against MYR towards the end of the Period. During the Period, the Group has also generated interest income of MYR4.8 million captured under its other income.

Administrative expenses

The Group's administrative expenses decreased by MYR9.3 million from MYR34.3 million in the Previous Corresponding Period to MYR24.9 million during the Period. This was mainly due to the following factors:

- (i) lower administrative staff cost by MYR8.8 million during the Period due to decrease in staff incentive; and
- (ii) no loss on foreign exchange incurred during the Period as compared to the loss on foreign exchange of MYR2.8 million recorded in the Previous Corresponding Period.

The above decrease in costs were partially offset by:

- (i) higher amount of ECL allowance on trade receivable of MYR3.6 million recorded during the Period as compared to MYR2.5 million incurred in the Previous Corresponding Period; and
- (ii) higher depreciation, upkeep and maintenance cost in office equipment by MYR0.6 million during the Period with the increase in staff headcount as compared to the Previous Corresponding Period.

Profit for the Period

The Group closed its nine months ended 30 September 2020 with a net profit of MYR79.2 million, a decrease of 17.0% as compared to the net profit of MYR95.4 million in the Previous Corresponding Period. Accordingly, the Group's EBITDA (earnings before interest, tax, depreciation and amortisation) for the Period stood at MYR88.6 million as compared to MYR103.9 million recorded in the Previous Corresponding Period, representing a decrease of 14.8%. Basic earnings per share fell from MYR5.96 during the Previous Corresponding Period to MYR4.95 during the Period.

Prospect

With the on-going threat of Covid-19 impacting world economies and the continuous infection wave crippling the socio-economic aspect, year 2020 has been highly disruptive as the Group enters into the remaining months of 2020. Towards this end, the Group has been tirelessly stepping up its effort in managing its project delivery and installation timeline taking into consideration the tedious application process for cross border travelling imposed by the Malaysian government. In parallel, the Group is actively evaluating its strategic expansion opportunities outside of Malaysia to broaden its footprint regionally, whilst acknowledging the fact that pandemic risk remains real and the Group needs to anchor a diversified environment for its long term growth plan.

During the Period, with the exception of the Group’s electro-optical division (previously known as telecommunications division), the Group continues to witness positive business growth momentum from the rest of the Group’s division in the ATE and FAS business segments. The Company’s recent incorporation of Pentamaster MediQ Sdn. Bhd. (“PDSB”) and its allocation of capital expenditure for PDSB shows the Group’s proactive approach in broadening its business exposure, especially towards the ever growing medical device segment. Currently, the Group has continued to expand its strength, technology capabilities as well as its product portfolio in the electro-optical capabilities, while capitalising the market potential on silicon carbide (SiC) and gallium nitrite (GaN) – based compound power semiconductors and power modules. The i-ARMS solution of the Group has also been bearing fruits with the wider adoption of robotics and automation.

With a record of being listed in Forbes’ list of Asia’s Best Under a Billion for a fourth consecutive year in 2020, the Group is honoured to be given such recognition for its track records of exceptional corporate performance. Fundamentally, the Group remains focused on its operational capabilities and in-house technology development as it solidifies its position as a world class automation solution provider.

PUBLICATION OF THIRD QUARTERLY RESULTS ANNOUNCEMENT

This announcement will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company’s website (www.pentamaster.com.my) respectively.

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

Malaysia, 6 November 2020

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.