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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 FIRST QUARTERLY RESULTS
ANNOUNCEMENT FOR THE THREE MONTHS ENDED
31 MARCH 2018**

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 three months ended 31 March 2018 (“1Q2018”), together with the comparative figures for the three months ended 31 March 2017 (“1Q2017”) (*expressed in Ringgit Malaysia “MYR”*).

The unaudited first 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 three months ended 31 March	2018	2017
	MYR'000	MYR'000
Revenue	98,048	45,843
Gross Profit	29,533	13,032
Profit for the period	21,211	9,122
Adjusted profit for the period	22,858	9,122
Earnings per share (sen)		
Basic and diluted	1.33	0.58

- Revenue of the Group was MYR98.0 million, representing an increase of 113.9% over the corresponding period last year.
- Adjusted profit for the period (excluding non-recurring listing expenses) stood at MYR22.9 million, representing an increase of 150.6% over the corresponding period last year.
- Cash and cash equivalents of MYR180.3 million as at 31 March 2018 against MYR81.6 million as at 31 December 2017.
- Order book amounted to approximately MYR314.5 million based on purchase orders secured from our customers as at 31 March 2018 that is expected to be delivered in the remaining months of 2018 and the first half of 2019.

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

FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Individual Quarter		Cumulative Year	
	3 Months Ended		Financial Period Ended	
	31/3/2018	31/3/2017	31/3/2018	31/3/2017
	MYR'000	MYR'000	MYR'000	MYR'000
Revenue	98,048	45,843	98,048	45,843
Cost of goods sold	<u>(68,515)</u>	<u>(32,811)</u>	<u>(68,515)</u>	<u>(32,811)</u>
Gross profit	29,533	13,032	29,533	13,032
Other income	5,915	3,796	5,915	3,796
Administrative expenses	(12,553)	(6,077)	(12,553)	(6,077)
Distribution costs	(128)	(778)	(128)	(778)
Other operating expenses	<u>(54)</u>	<u>(1)</u>	<u>(54)</u>	<u>(1)</u>
Operating profit	22,713	9,972	22,713	9,972
Finance costs	(49)	(4)	(49)	(4)
Share of results of an associate	(19)	–	(19)	–
Profit before taxation	22,645	9,968	22,645	9,968
Taxation	<u>(1,434)</u>	<u>(846)</u>	<u>(1,434)</u>	<u>(846)</u>
Profit and total comprehensive income for the period	<u>21,211</u>	<u>9,122</u>	<u>21,211</u>	<u>9,122</u>
Profit and total comprehensive income for the period attributable to:				
Owners of the Company	21,211	8,165	21,211	8,165
Non-controlling interests	<u>–</u>	<u>957</u>	<u>–</u>	<u>957</u>
	<u>21,211</u>	<u>9,122</u>	<u>21,211</u>	<u>9,122</u>
Earnings per share attributable to owners of the Company (sen)				
– Basic and diluted	1.33	0.58	1.33	0.58
One-off and non-recurring costs				
Listing expenses	1,647	–	1,647	–
Reported profit for the period	<u>21,211</u>	<u>9,122</u>	<u>21,211</u>	<u>9,122</u>
Adjusted profit for the period	<u>22,858</u>	<u>9,122</u>	<u>22,858</u>	<u>9,122</u>

The unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the three months ended 31 March 2018 should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

	Unaudited	Audited
	As at	As at
	31/3/2018	31/12/2017
	MYR'000	MYR'000
ASSETS		
Non-current assets		
Property, plant and equipment	39,970	38,209
Leasehold land	7,688	7,704
Intangible assets	958	932
Investment in an associate	992	1,012
	<u>49,608</u>	<u>47,857</u>
Current assets		
Inventories	122,416	121,541
Trade receivables	36,462	32,648
Other receivables, deposits and prepayments	8,526	7,855
Derivative financial assets	5,915	461
Cash and cash equivalents	180,265	81,643
Tax recoverable	–	4
	<u>353,584</u>	<u>244,152</u>
Total assets	<u>403,192</u>	<u>292,009</u>

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

AS AT 31 MARCH 2018

	Unaudited	Audited
	As at	As at
	31/3/2018	31/12/2017
	MYR'000	MYR'000
EQUITY AND LIABILITIES		
EQUITY		
Share capital	92,991	1
Reserves	148,591	127,380
Total equity	241,582	127,381
LIABILITIES		
Non-current liabilities		
Finance lease liabilities	–	36
Deferred income	386	419
	386	455
Current liabilities		
Trade payables	36,712	24,551
Other payables, accruals and provision	109,378	123,605
Amount due to ultimate holding company	9,600	10,799
Amount due to a fellow subsidiary	612	555
Finance lease liabilities	140	138
Bank borrowing	3,921	4,000
Provision for taxation	861	525
	161,224	164,173
Total liabilities	161,610	164,628
Total equity and liabilities	403,192	292,009

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2018

	Equity attributable to owners of the Company				Non-controlling Interests MYR'000	Total equity MYR'000
	Share capital MYR'000	Capital reserve MYR'000	Retained profits MYR'000	Total MYR'000		
As at 1 January 2018	1	44,477	82,903	127,381	-	127,381
<i>Transactions with owners:</i>						
Issuance of new shares	96,654	-	-	96,654	-	96,654
Share issue expenses	(3,664)	-	-	(3,664)	-	(3,664)
Total comprehensive income for the period	-	-	21,211	21,211	-	21,211
As at 31 March 2018	<u>92,991</u>	<u>44,477</u>	<u>104,114</u>	<u>241,582</u>	<u>-</u>	<u>241,582</u>

	Equity attributable to owners of the Company				Non-controlling Interests MYR'000	Total equity MYR'000
	Share capital MYR'000	Capital reserve MYR'000	Retained profits MYR'000	Total MYR'000		
As at 1 January 2017	-	39,450	43,257	82,707	3,977	86,684
<i>Transaction with owners:</i>						
Total comprehensive income for the period	-	-	8,165	8,165	957	9,122
As at 31 March 2017	<u>-</u>	<u>39,450</u>	<u>51,422</u>	<u>90,872</u>	<u>4,934</u>	<u>95,806</u>

The unaudited Condensed Consolidated Statement of Changes in Equity for the three months ended 31 March 2018 should be read in conjunction with the Audited Financial Statements for the year ended 31 December 2017.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED 31 MARCH 2018

	3 Months ended 31/3/2018 MYR'000	3 Months ended 31/3/2017 MYR'000
Cash flows from operating activities		
Profit before taxation	22,645	9,968
Adjustments for:		
Amortisation of intangible assets	181	179
Deferred income released	(33)	(235)
Depreciation	542	692
Interest expense	49	4
Interest income	(228)	(125)
Gain from changes in fair value of foreign currency forward contracts	(5,454)	(3,317)
Inventory written downs – addition	130	–
Inventory written downs – reversal	–	(1)
Share of results of an associate	19	–
Unrealised loss on foreign exchange	3,926	1,537
Operating profit before working capital changes	21,777	8,702
Increase in inventories	(1,005)	(43,581)
Increase in receivables	(5,772)	(7,933)
(Decrease)/increase in payables	(2,065)	54,849
Net change in a fellow subsidiary's balance	58	(12)
Cash generated from operations	12,993	12,025
Grant received	–	262
Interest paid	(49)	(4)
Tax paid	(1,119)	(575)
Tax refunded	25	–
Net cash generated from operating activities	11,850	11,708

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE THREE MONTHS ENDED 31 MARCH 2018

	3 Months ended 31/3/2018 MYR'000	3 Months ended 31/3/2017 MYR'000
Cash flows from investing activities		
Interest received	228	125
Purchase of property, plant and equipment	(2,287)	(1,208)
Purchase of computer software	(206)	(82)
Investment in an associate	—	(1,050)
Net cash used in investing activities	<u>(2,265)</u>	<u>(2,215)</u>
Cash flows from financing activities		
Proceeds from issuance of share capital	96,653	—
Share issue expenses	(3,664)	—
Repayments to ultimate holding company	(1,199)	(1,256)
Repayment of finance lease liabilities	(34)	(33)
Repayment of bank borrowing	(79)	—
Net cash generated from/(used in) financing activities	<u>91,677</u>	<u>(1,289)</u>
Net increase in cash and cash equivalents	101,262	8,204
Effect of foreign exchange rate changes	(2,640)	611
Cash and cash equivalents at the beginning of the period	81,643	26,298
Cash and cash equivalents at the end of the period	<u>180,265</u>	<u>35,113</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Performance of the respective operating segments in 1Q2018 as compared to 1Q2017 is analysed as follows:–

Unaudited results for the three months ended 31 March 2018

	Automated equipment MYR'000	Automated manufacturing solution MYR'000	Adjustment MYR'000	Total MYR'000
Revenue				
External customers	90,353	7,695	–	98,048
Inter-segment revenue	781	4,731	(5,512)	–
Total revenue	<u>91,134</u>	<u>12,426</u>	<u>(5,512)</u>	<u>98,048</u>
Results				
Segment results	23,485	944	(1,716)	22,713
Finance costs	(49)	–	–	(49)
Share of results of an associate	–	–	(19)	(19)
Profit before taxation	<u>23,436</u>	<u>944</u>	<u>(1,735)</u>	<u>22,645</u>
Taxation	(1,433)	(1)	–	(1,434)
Profit for the period	<u><u>22,003</u></u>	<u><u>943</u></u>	<u><u>(1,735)</u></u>	<u><u>21,211</u></u>

Unaudited results for the three months ended 31 March 2017

	Automated equipment MYR'000	Automated manufacturing solution MYR'000	Adjustment MYR'000	Total MYR'000
Revenue				
External customers	42,931	2,912	–	45,843
Inter-segment revenue	163	216	(379)	–
Total revenue	<u>43,094</u>	<u>3,128</u>	<u>(379)</u>	<u>45,843</u>
Results				
Segment results	11,860	(2,053)	165	9,972
Finance costs	(4)	–	–	(4)
Profit before taxation	11,856	(2,053)	165	9,968
Taxation	(845)	(1)	–	(846)
Profit for the period	<u>11,011</u>	<u>(2,054)</u>	<u>165</u>	<u>9,122</u>

The Group recorded a higher revenue at MYR98.0 million in 1Q2018 as compared to MYR45.8 million recorded in 1Q2017, representing an increase of 113.9%. The Group's revenue was primarily contributed by both the automated equipment and automated manufacturing solution segments which constituted approximately 92.2% and 7.8% of the Group's total revenue respectively.

Automated equipment segment

This segment recorded an increase in revenue by MYR48.0 million to MYR91.1 million in 1Q2018 as compared to the previous corresponding period. The substantial increase in revenue by approximately 111.5% from this segment was mainly attributable to the stronger demand for our test equipment namely microelectromechanical systems (MEMS) & smart sensor test handler solutions from the telecommunication market, particularly the smart mobile device sector. The rise in such demand was underpinned by the increasing prevalence of smart sensors in mobile devices resulting in the growth in demand for our highly customised testing equipment for these sensors.

Automated manufacturing solution segment

Revenue from the automated manufacturing solution segment in 1Q2018 was MYR12.4 million, which was MYR9.3 million higher than the revenue of MYR3.1 million in the previous corresponding period, representing an increase of 297.3%. The increase in revenue from this segment was mainly due to a higher demand for integrated automated manufacturing solutions from a more diversified customer base in the telecommunication and automotive markets stemming from increasing demand for factory automation.

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

For the three months ended

31 March	2018		2017	
	MYR'000	%	MYR'000	%
Semiconductor	14,992	15.3%	8,337	18.2%
Telecommunication	69,200	70.6%	30,667	66.9%
Automotive	8,729	8.9%	349	0.8%
Consumer electronics	3,252	3.3%	6,476	14.1%
Medical devices	–	0.0%	1	0.0%
Others	1,875	1.9%	13	0.0%
	<u>98,048</u>	<u>100.0</u>	<u>45,843</u>	<u>100.0</u>

Gross margin

The gross profit margin of the Group historically ranged from 28.1% to 31.8% over the last four years. Gross profit margin in the first quarter increased by 1.7% to 30.1% compared to 28.4% for the corresponding period last year. Such increase was primarily attributable to the improvement in gross profit of the automated equipment segment following the better margin secured from projects delivered to customers in the telecommunication sector. The improved gross profit margin in 1Q2018 was further augmented by the economies of scale brought about by the substantial growth in sales in 1Q2018.

Other income

Other income increased from MYR3.8 million in 1Q2017 to MYR5.9 million in 1Q2018. Other income mainly consisted of gain from changes in fair value of foreign currency forward contracts of MYR5.5 million recorded during the first quarter. The gain from these changes in fair value of foreign currency forward contracts recorded in the first quarter was offset by the net loss on foreign exchange of MYR4.8 million recorded under the administrative expenses, resulting in a net gain on foreign exchange of approximately MYR0.7 million during the quarter. The net loss on foreign exchange arose from the depreciation of U.S. dollar against MYR in the same quarter.

Administrative expenses

Administrative expenses increased from MYR6.1 million in 1Q2017 to MYR12.6 million in 1Q2018, mainly attributable to the loss on foreign exchange and non-recurring listing expenses incurred by the Group for the first quarter as well as an increase in staff costs.

The Group's sales and receivables were predominantly denominated in U.S dollar. The loss on foreign exchange was mainly due to the short term appreciation of our functional currency, MYR against the U.S. dollar towards the end of the first quarter in 2018. Such loss was offset by the gain from changes in fair value of foreign currency forward contracts recorded under other income. Our Group generally enters into foreign currency forward contracts as part of our treasury policy to manage our foreign currency exposure.

In addition to the above, the listing expenses of MYR1.6 million also contributed to the higher administrative expenses recorded in the first quarter. Meanwhile, staff costs increased from MYR1.4 million in 1Q2017 to MYR3.8 million in 1Q2018, mainly due to an increase in both staff remuneration and headcount.

Profit for the quarter

From the bottom line perspective, the Group closed its first quarter of 2018 with net profit of MYR21.2 million (1Q2017: MYR9.1 million) after taking into account the listing expenses related to the listing exercise of the Company. Should the effects of such expenses be excluded, the Group would have exhibited a net profit of MYR22.9 million, an increase of 150.6% from MYR9.1 million recorded in the first quarter of 2017. Similarly, the adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) for the first quarter of 2018 stood at MYR25.1 million as compared to MYR10.8 million in the first quarter of 2017.

Prospect

The Group expects 2018 to be another good year with continued strong demand from our customers as evidenced by the size of outstanding secured orders of approximately MYR314.5 million received up to 31 March 2018 (up from MYR249.2 million as of 31 December 2017), with majority of the orders to be delivered in the remaining months of 2018. In view of the smart sensing and electric vehicle trends in 2018, we expect sales growth momentum to be driven by both the telecommunication and automotive sectors. We also expect delivery of projects involving large-scale factory automation lines in the second half of the year following the anticipated completion of our new production plant in June 2018.

PUBLICATION OF QUARTERLY RESULTS ANNOUNCEMENT

This announcement will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company's website (www.pentamaster-international-ltd.com).

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

Malaysia, 22 May 2018

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