

DKSH HOLDINGS (MALAYSIA) BERHAD (199101021067 (231378-A))

(Incorporated in Malaysia)

QUARTERLY REPORT

Quarterly report on consolidated results for the financial quarter and nine months ended September 30, 2019

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER
AND NINE MONTHS ENDED SEPTEMBER 30, 2019**

	INDIVIDUAL 3RD QUARTER		CUMULATIVE 3RD QUARTER	
	30/09/2019 Unaudited RM'000	30/09/2018 Unaudited RM'000	30/09/2019 Unaudited RM'000	30/09/2018 Unaudited RM'000
1 Revenue	1,710,310	1,515,990	4,846,514	4,414,127
2 Operating expenses	(1,683,797)	(1,501,633)	(4,786,683)	(4,366,999)
3 Other operating income	1,577	832	4,216	5,168
4 Profit before interest and tax	28,090	15,189	64,047	52,296
5 Finance cost	(10,329)	(2,412)	(27,636)	(5,951)
6 Profit before tax	17,761	12,777	36,411	46,345
7 Taxation	(7,017)	(3,586)	(14,641)	(12,293)
8 Profit for the period, net of tax	10,744	9,191	21,770	34,052
9 Net profit for the period	10,744	9,191	21,770	34,052
10 Other comprehensive income :				
- Currency translation differences arising from consolidation	(6)	13	(1)	(2)
11 Total comprehensive income	10,738	9,204	21,769	34,050
12 Net profit attributable to owners of the parent	10,744	9,191	21,770	34,052
13 Total comprehensive income attributable to owners of the parent	10,738	9,204	21,769	34,050
14 Earnings per share (EPS) based on item 12 above (See Note 1 below)				
(i) EPS attributable to owners of parent	6.81	5.83	13.81	21.60
15 Cash earnings per share (EPS) (See Notes 1 and 2 below)				
(i) Cash EPS attributable to owners of parent	11.50	7.23	24.60	25.81

Note:

- The weighted average number of shares used in item 14 and 15 above is computed : 157,658,076 shares.
- The cash earnings used as the numerator in calculating cash EPS is defined as net profit attributable to owners of parent excluding depreciation, amortization and MFRS 16 impact.

The unaudited Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the audited annual financial statements for the year ended December 31, 2018 and the accompanying explanatory notes attached to the interim financial statements.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2019**

	30/09/2019 Unaudited RM'000	31/12/2018 Audited RM'000
1 Non Current Assets		
Property, plant and equipment	31,975	26,595
Right-of-use assets	132,688	-
Intangible assets	396,989	159
Deferred tax assets	7,025	6,346
	<u>568,677</u>	<u>33,100</u>
2 Current Assets		
Inventories	769,611	734,523
Trade and other receivables	1,466,338	1,300,540
Derivative financial instrument	52	-
Cash and bank balances	17,976	101,970
	<u>2,253,977</u>	<u>2,137,033</u>
3 Total Assets	<u>2,822,654</u>	<u>2,170,133</u>
4 Equity		
Ordinary share capital	182,172	182,172
Foreign currency translation reserve	139	140
Retained earnings	420,665	414,661
Equity attributable to owners of parent	<u>602,976</u>	<u>596,973</u>
5 Current Liabilities		
Trade and other payables	1,378,489	1,506,313
Derivative financial instrument	-	104
Lease liabilities	27,538	-
Borrowings	150,130	29,000
Taxation	4,163	2,959
	<u>1,560,320</u>	<u>1,538,376</u>
6 Non Current Liabilities		
Borrowings	532,937	32,192
Derivative financial instrument	2,538	-
Lease liabilities	108,143	-
Long term liabilities	2,572	2,592
Deferred tax liabilities	13,168	-
	<u>659,358</u>	<u>34,784</u>
7 Total Liabilities	<u>2,219,678</u>	<u>1,573,160</u>
8 Total Equity and Liabilities	<u>2,822,654</u>	<u>2,170,133</u>
9 Net assets per share attributable to ordinary equity holders of the company (RM)	<u>3.8246</u>	<u>3.7865</u>

The unaudited Condensed Consolidated Statement of Finance Position should be read in conjunction with the audited annual financial statements for the year ended December 31, 2018 and the accompanying explanatory notes attached to the interim financial statements.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR NINE MONTHS
ENDED SEPTEMBER 30, 2019**

	----- Attributable to owners of the parent -----		Foreign currency translation reserve	Distributable Retained earnings	Total Equity
	----- Non-distributable -----				
	Issued and fully paid ordinary shares				
	Number of shares	Amount			
	000	RM'000	RM'000	RM'000	RM'000
<u>NINE MONTHS ENDED SEPTEMBER 30, 2019</u>					
At January 1, 2019	157,658	182,172	140	414,661	596,973
Total comprehensive income for the period	-	-	(1)	21,770	21,769
Dividends	-	-	-	(15,766)	(15,766)
At September 30, 2019	<u>157,658</u>	<u>182,172</u>	<u>139</u>	<u>420,665</u>	<u>602,976</u>
<u>NINE MONTHS ENDED SEPTEMBER 30, 2018</u>					
At January 1, 2018	157,658	182,172	139	385,843	568,154
Total comprehensive income for the period	-	-	(2)	34,052	34,050
Dividends	-	-	-	(15,766)	(15,766)
At September 30, 2018	<u>157,658</u>	<u>182,172</u>	<u>137</u>	<u>404,129</u>	<u>586,438</u>

The unaudited Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the audited annual financial statements for the year ended December 31, 2018 and the accompanying explanatory notes attached to the interim financial statements.

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**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR NINE MONTHS ENDED SEPTEMBER 30, 2019**

	30/09/2019 Unaudited RM'000	30/09/2018 Unaudited RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	36,411	46,345
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	7,999	6,629
Depreciation of right-of-use assets	27,452	-
Amortization of intangible assets	6,086	20
Net unrealized derivative losses/(gains)	2,430	(1,029)
Gain on disposal of property, plant and equipment	(135)	(10)
Written off property, plant and equipment	-	15
Write-back of provision for property restoration cost	(20)	-
Interest income	(715)	(80)
Interest expenses	19,982	5,951
Interest expenses on lease liabilities	6,303	-
Loss allowance on trade receivables	2,795	3,588
Inventories written off	12,702	8,450
Net write-down of slow moving inventories	3,412	2,814
Net unrealized foreign exchange losses	2,013	1,672
Operating cash flows before changes in working capital	<u>126,715</u>	<u>74,365</u>
Changes in working capital:		
Inventories	25,692	(96,755)
Trade and other receivables	(92,090)	(167,651)
Trade and other payables	(185,561)	30,074
	<u>(251,959)</u>	<u>(234,332)</u>
Interest paid	(19,927)	(5,936)
Interest received	715	80
Tax paid	(15,989)	(13,255)
	<u>(35,201)</u>	<u>(19,111)</u>
Net cash flows (used in) operating activities	<u>(160,445)</u>	<u>(179,078)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9,850)	(5,470)
Acquisition of subsidiaries, net cash outflow	(467,059)	-
Proceed from disposal of property, plant and equipment	167	14
Net cash flows used in investing activities	<u>(476,742)</u>	<u>(5,456)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings	599,729	160,250
Payment of lease liabilities	(30,769)	-
Dividend paid	(15,766)	(15,766)
Net cash flows generated from financing activities	<u>553,194</u>	<u>144,484</u>
CHANGES IN CASH AND CASH EQUIVALENTS	<u>(83,993)</u>	<u>(40,050)</u>
CURRENCY TRANSLATION DIFFERENCES	(1)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	101,970	63,036
CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD	<u>17,976</u>	<u>22,984</u>
Note : Cash and cash equivalents comprise of :-		
Cash and bank balances	17,976	22,984
	<u>17,976</u>	<u>22,984</u>

The unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited annual financial statements for the year ended December 31, 2018 and the accompanying explanatory notes attached to the interim financial statements.

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The figures have not been audited

SEGMENTAL INFORMATION

<u>For the Nine Months Ended September 30, 2019</u>	<u>Marketing & Distribution Services</u>	<u>Logistics Services</u>	<u>Others</u>	<u>Consolidated</u>
	RM'000	RM'000	RM'000	RM'000
Revenue				
Type of goods or services:				
Sales of goods	2,323,724	2,388,042	48,394	4,760,160
Rendering of services	33,830	52,524	-	86,354
Total revenue from contracts with customers	2,357,554	2,440,566	48,394	4,846,514
Results				
Segment profit before interest and tax	29,323	41,881	(7,157)	64,047
Finance cost				(27,636)
Taxation				(14,641)
Profit for the period, net of tax				<u>21,770</u>
<u>As at September 30, 2019</u>				
Net assets				
Segment assets	1,333,285	961,981	34,959	2,330,225
Unallocated assets				492,429
Total assets				<u>2,822,654</u>
Segment liabilities	(531,054)	(729,040)	(2,164)	(1,262,258)
Unallocated liabilities				(957,420)
Total liabilities				<u>(2,219,678)</u>
Other information				
Capital expenditure	2,086	3,701	3,660	9,447
Depreciation of property, plant and equipment	2,466	2,049	3,484	7,999
Depreciation of right-of-use assets	16,572	6,067	4,813	27,452
Amortization of intangible assets	6,086	-	-	6,086
Loss/(reversal of) allowance on trade receivables	2,297	500	(2)	2,795
Inventories written off	10,972	760	970	12,702

The Group recognized revenue from sales of goods at a point in time, upon delivery of goods and revenue from rendering of services over time.

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The figures have not been audited

SEGMENTAL INFORMATION

<u>For the Nine Months Ended September 30, 2018</u>	<u>Marketing & Distribution Services</u>	<u>Logistics Services</u>	<u>Others</u>	<u>Consolidated</u>
	RM'000	RM'000	RM'000	RM'000
Revenue				
Type of goods or services:				
Sales of goods	2,095,073	2,232,049	42,909	4,370,031
Rendering of services	15,779	28,317	-	44,096
Total revenue from contracts with customers	2,110,852	2,260,366	42,909	4,414,127
Results				
Segment profit before interest and tax	19,628	34,662	(1,994)	52,296
Finance cost				(5,951)
Taxation				(12,293)
Profit for the period, net of tax				<u>34,052</u>
As at September 30, 2018				
Net assets				
Segment assets	1,142,133	838,134	22,786	2,003,053
Unallocated assets				81,238
Total assets				<u>2,084,291</u>
Segment liabilities	(497,862)	(694,537)	(2,552)	(1,194,951)
Unallocated liabilities				(302,902)
Total liabilities				<u>(1,497,853)</u>
Other information				
Capital expenditure	2,072	1,331	1,859	5,262
Depreciation of property, plant and equipment	1,339	1,855	3,435	6,629
Amortization of intangible assets	20	-	-	20
Loss/(reversal of) allowance on trade receivables	5,592	(1,953)	(51)	3,588
Inventories written off	7,820	(26)	656	8,450

The Group recognized revenue from sales of goods at a point in time, upon delivery of goods and revenue from rendering of services over time.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(I) Compliance with MFRS 134: Interim Financial Reporting

1. Corporate Information

The Company is a public limited company, incorporated and domiciled in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

These condensed consolidated interim financial statements were approved by the Board of Directors on October 29, 2019.

2. Accounting Policies and Basis of Preparation

The unaudited condensed consolidated interim financial statements for the current quarter and nine months ended September 30, 2019 have been prepared in accordance with MFRS 134 (Interim Financial Reporting) and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad. These condensed consolidated interim financial statements also comply with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended December 31, 2018.

The accounting policies and presentation adopted for the interim financial statements are consistent with those adopted for the annual audited financial statements of the Group for the year ended December 31, 2018.

On January 1, 2019, the Group adopted the following new and amended MFRSs and IC Interpretation mandatory for annual financial periods beginning on or after January 1, 2019.

- MFRS 9 Prepayment Features with Negative Compensation (Amendments to MFRS 9)
- MFRS 16 Leases
- IC Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to MFRS Standards 2015 – 2017
- Definition of Material (Amendments to MFRS 101 and MFRS 108)
- Revised Conceptual Framework for Financial Reporting

The adoption of the new and amended MFRSs and IC Interpretation above have not resulted in material impact on the financial statements of the Group except as discussed below:

MFRS 16 Leases

MFRS 16 replaces MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions), less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of

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the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications.

Classification of cash flows will also be affected as operating lease payments under MFRS 117 are presented as operating cash flows, whereas under MFRS 16, the lease payments will be split into a principal (which will be presented as financing cash flows) and an interest portion (which will be presented as operating cash flows).

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases. MFRS 16 also requires lessees and lessors to make more extensive disclosures than under MFRS 117.

The Group has applied MFRS 16 using the modified retrospective approach with no restatement of comparative information. The lease liabilities will be measured based on the present value of the remaining lease payment, adjusted by the amount of any prepaid or accrued lease payments. The right-of-use asset will be measured based on the present value of the remaining leases payment.

As at September 30, 2019, the right-of-use assets and lease liabilities are RM 132.7 million and RM 135.7 million respectively. Also, in relation to those leases under MFRS 16, the Group has recognized depreciation and interest expenses, instead of operating expenses. During the nine months ended September 30, 2019, the Group recognized RM 27.5 million of depreciation charges and RM 6.3 million of interest expenses relating to these leases.

3. Disclosure of Audit Report Qualification and Status of Matters Raised

The auditors' report on the financial statements of the Group for the year ended December 31, 2018 was not qualified.

4. Seasonal or Cyclical Factors

The Group's segments cover primarily Consumer Goods and Healthcare businesses. Consequently, net sales are influenced by the festive seasons of Chinese New Year, Hari Raya, Deepavali and Christmas.

5. Unusual Items Affecting Assets, Liabilities, Equity, Net Income or Cash Flows

The Group has undertaken a growth and efficiency improvement project in the Marketing and Distribution segment in the fourth quarter of 2018. This has led to RM 3.8 million cost incurred in the fourth quarter of 2018 and a further RM 15.7 million incurred in the financial quarter ended June 30, 2019. This project will deliver sales optimization and cost efficiencies during 2019 and an ongoing improved cost base and profitability in the long term. Besides that, the Group incurred one-off expenses relating to the acquisition of Auric Malaysia amounting to RM 4.9 million in the first quarter of 2019.

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6. Material Changes in Estimates

There were no material changes in estimates used to prepare these interim financial statements.

7. Changes in Debt and Equity Securities

There were no changes in debt and equity securities during the quarter under review.

8. Dividend Paid

The following dividend payment was made during the period ended September 30, 2019:

	RM'000
In respect of the financial year ended December 31, 2018:	
- Final single tier dividend of 10.0 sen per share paid on July 16, 2019	<u>15,766</u>

9. Segment Information

The Group's segmental information for the financial nine months ended September 30, 2019 and September 30, 2018 is presented separately in this interim financial report.

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10. Profit before Tax

The following items are included in profit before tax:

	Current quarter ended		Cumulative Year-to-Date ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	3,045	2,182	7,999	6,629
Depreciation of right-of-use assets	9,204	-	27,452	-
Amortization of intangible assets	3,039	7	6,086	20
Net unrealized derivative losses/(gains)	936	(95)	2,430	(1,029)
Rental income	(446)	(317)	(1,378)	(951)
Interest income	(366)	(13)	(715)	(80)
Interest expenses	8,220	2,412	19,982	5,951
Interest expenses on lease liabilities	2,009	-	6,303	-
Interest - others	100	-	1,351	-
Gain on disposal of property, plant and equipment	(134)	(10)	(135)	(10)
Loss allowance on trade receivables	1,510	2,727	2,795	3,588
Inventories written off	6,756	2,988	12,702	8,450
(Reversal of)/net write-down of slow-moving inventories	(2,310)	649	3,412	2,814
Net unrealized foreign exchange losses	823	749	2,013	1,672
Exceptional items (Consulting cost)	-	-	15,747	-
Gain on disposal of quoted/unquoted investment	-	-	-	-
Impairment of assets	-	-	-	-

11. Valuation of Property, Plant and Equipment

Property, plant and equipment have been brought forward without amendment from the previous audited annual financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Material Events subsequent to the end of the Financial Period

There were no material events subsequent to the end of the period reported that have not been reflected in the interim financial statements for the nine months ended September 30, 2019.

13. Changes in the Composition of the Group

The Group had on December 21, 2018, entered into a conditional share purchase agreement with Auric Pacific Group Limited for the acquisition of the entire equity interest in Auric Pacific (M) Sdn. Bhd. ("Auric Malaysia") ("Proposed Acquisition"). The Proposed Acquisition was approved by the shareholders at an Extraordinary General Meeting held on February 22, 2019 and was completed on March 29, 2019.

Summary of effects of the Proposed Acquisition on the statement of financial position of the Group is illustrated as follows:

The provisional fair values of the identifiable assets and liabilities relating to acquisition:	Total fair value recognized on acquisition of Auric Group RM'000
Assets	
Property, plant and equipment	3,696
Right-of-use assets	1,548
Intangible assets	60,655
Deferred tax assets	2,103
Inventories	71,303
Trade and other receivables	79,507
Cash and bank balances	16,560
Total assets	235,372
Liabilities	
Trade and other payables	(55,756)
Lease liabilities	(1,555)
Deferred tax liabilities	(14,557)
Borrowings	(22,146)
Total liabilities	(94,014)
Total identifiable net assets acquired	141,358
Goodwill on acquisition	342,261
Purchase consideration	483,619

The allocation of purchase price was based upon a preliminary valuation, and the estimates and assumptions used are subject to change within the one-year measurement period.

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13. Changes in the Composition of the Group (contd.)

Summary of effects of the Proposed Acquisition on the statement of cash flows:

	RM'000
Fair value of consideration	483,619
Less: Cash and cash equivalent of subsidiary companies	(16,560)
Net cash outflows from acquisition of subsidiary companies	<u>467,059</u>

14. Related Party Disclosures

The following table provides information on significant transactions which have been entered into with related parties during financial nine months ended September 30, 2019 and September 30, 2018, as well as the balances with the related parties as at September 30, 2019 and September 30, 2018:

	Current year ended September 30, 2019 RM'000	Preceding year ended September 30, 2018 RM'000	Intercompany balances - due from/(to) as at	
			September 30, 2019 RM'000	September 30, 2018 RM'000
Sale of goods and services:				
- related companies (goods)	3,333	1,339	1,744	93
- related companies (rental)	901	474	647	161
- related companies (cost sharing)	173	241	53	58
- related companies (human resource and information technology charges)	542	543	108	102
	<u>4,949</u>	<u>2,597</u>	<u>2,552</u>	<u>414</u>
Purchase of goods and services:				
- related companies (goods and services)	(14,525)	(14,004)	(2,962)	(4,562)
- related company (management fee)	(4,070)	(3,865)	(12)	(7)
- related company (information technology charges)	(13,261)	(12,801)	(233)	(515)
Others (interest):				
- immediate holding company	(724)	(809)	(163)	(85)
- intermediate holding company	(335)	(322)	(74)	(37)
	<u>(32,915)</u>	<u>(31,801)</u>	<u>(3,444)</u>	<u>(5,206)</u>

The amounts receivable from or payable to related parties are unsecured, non-interest bearing and carry credit terms between 30 to 120 days. There were no overdue balances from related parties as at September 30, 2019.

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15. Changes in Contingent Liabilities or Contingent Assets

There were no changes in contingent liabilities or contingent assets since the quarter ended September 30, 2019 and up to October 29, 2019.

16. Capital Commitments

Authorized capital commitments not provided for in this interim financial report as at September 30, 2019 are as follows:

	RM'000
Contracted	<u>2,350</u>
Analyzed as follows:	
- Property, plant and equipment	<u>2,350</u>

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ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD – NINE MONTHS ENDED SEPTEMBER 30, 2019

(II) Compliance with Appendix 9B of the Listing Requirements

1. Review of Performance

	Individual 3 rd Quarter				Immediately Preceding 2 nd Quarter			Cumulative 3 rd Quarter			
	30/09/2019	30/09/2018	Changes		30/06/2019	Changes		30/09/2019	30/09/2018	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	1,710,310	1,515,990	194,320	12.8%	1,573,529	136,781	8.7%	4,846,514	4,414,127	432,387	9.8%
Profit before interest and tax	28,090	15,189	12,901	84.9%	27,726	364	1.3%	64,047	52,296	11,751	22.5%
Profit before tax	17,761	12,777	4,984	39.0%	17,819	(58)	(0.3%)	36,411	46,345	(9,934)	(21.4%)
Profit after tax ("PAT")	10,744	9,191	1,553	16.9%	11,644	(900)	(7.7%)	21,770	34,052	(12,282)	(36.1%)
Profit attributable to owners of the parent	10,744	9,191	1,553	16.9%	11,644	(900)	(7.7%)	21,770	34,052	(12,282)	(36.1%)

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1. Review of Performance (continued)

	Individual 3 rd Quarter				Immediately Preceding 2 nd Quarter			Cumulative 3 rd Quarter			
	30/09/2019	30/09/2018	Changes		30/06/2019	Changes		30/09/2019	30/09/2018	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
PAT	10,744	9,191	1,553	16.9%	11,644	(900)	(7.7%)	21,770	34,052	(12,282)	(36.1%)
Adjusted for:											
Add: Unusual items:											
- Auric Malaysia's acquisition and financing cost ⁽¹⁾	6,511	-	6,511	-	6,008	503	8.4%	18,739	-	18,739	-
- Amortization of intangible assets ⁽²⁾	3,033	-	3,033	-	3,033	-	-	6,066	-	6,066	-
- Purchase price allocation adjustments, net of tax ⁽³⁾	-	-	-	-	5,756	(5,756)	(100.0%)	5,756	-	5,756	-
- Cost incurred for growth and efficiency improvement project, net of tax	-	-	-	-	3,454	(3,454)	(100.0%)	11,968	-	11,968	-
Adjusted operating PAT ⁽⁴⁾	20,288	9,191	11,097	120.7%	29,895	(9,607)	(32.1%)	64,299	34,052	30,247	88.8%
Adjusted for:											
Less: Auric Malaysia's adjusted operating PAT ⁽⁵⁾	8,411	-	8,411	-	16,007	(7,596)	(47.5%)	24,418	-	24,418	-
Add: MFRS 16 impact ⁽⁶⁾	1,304	-	1,304	-	791	513	64.9%	2,936	-	2,936	-
Comparative PAT ⁽⁷⁾	13,181	9,191	3,990	43.4%	14,679	(1,498)	(10.2%)	42,817	34,052	8,765	25.7%

Notes
⁽¹⁾ One-off expenses relating to the acquisition of Auric Malaysia and interest expenses on financing loan.

⁽²⁾ Amortization of intangible assets recognized pursuant to purchase price allocation.

⁽³⁾ Purchase price allocation adjustments on the acquisition of Auric Malaysia, net of tax.

⁽⁴⁾ Intended to represent PAT from ongoing operating activities, specifically excluding significant one-off items and amortization of intangible assets.

⁽⁵⁾ Auric Malaysia's adjusted operating PAT from date of acquisition to period ended September 30, 2019.

⁽⁶⁾ Impact arising from adoption of MFRS 16 Leases.

⁽⁷⁾ To remove historical items not present in 2018, to allow for ease of comparison to 2018.

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1. Review of Performance (continued)

Quarterly

Revenues for the quarter grew by 12.8% from RM 1.52 billion to RM 1.71 billion as compared to the corresponding third quarter of 2018, while improving by 8.7% from RM 1.57 billion in the preceding second quarter of 2019. The increase in comparison to the corresponding third quarter was predominantly because of the contribution from the acquisition of Auric Malaysia, and ongoing organic growth of existing clients in all segments. The improvement as compared to the preceding second quarter was mainly contributed by the logistics segment which recorded significantly higher revenues due to organic growth and timing of government tender sales.

Operating expenses for the quarter increased by 12.1% from RM 1.50 billion to RM 1.68 billion as compared to corresponding third quarter of 2018. This is slightly less than the increase in revenues and indicates that costs are well controlled and free of any significant adjustments. With the amortization of intangible assets removed, the operating expenses increased less than the revenue growth listed above reflecting the continued gains from operational efficiency in all segments and the impact of MFRS 16. Operating expenses increased by 8.8% from RM 1.55 billion as compared to the preceding second quarter of 2019 largely in line with revenue growth listed above, with an increase in market hygiene costs in the marketing and distribution segment.

Profit before tax for the quarter improved by 39.0% compared to the same quarter of 2018 due to contributions of the Auric Malaysia business and ongoing organic growth of existing clients in all segments. Compared to the preceding second quarter of 2019, profit before tax declined marginally by 0.3% mainly due to an increase in market hygiene costs.

With the Auric Malaysia contribution, MFRS 16 impact and unusual items adjusted, the comparative PAT grew by 43.4% from RM 9.2 million to RM 13.2 million as compared to the corresponding third quarter of 2018, while decreasing by 10.2% from RM 14.7 million in the preceding second quarter of 2019. This decrease from the previous quarter is largely explained by a product mix shift with revenues for higher margin products being higher in the preceding second quarter due to festive season sales. This is a normal product mix shift from the second to third quarter, which features no significant festive sales.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Review of Performance (continued)

Year-to-date

Revenues grew by 9.8% from RM 4.41 billion to RM 4.85 billion as compared to 2018. This revenue growth results from the positive contribution from the Auric Malaysia business and underlying organic growth of existing clients in all segments.

Operating costs increased by 9.6% from RM 4.37 billion to RM 4.79 billion. These cost increases were largely in line with the revenue growth listed above. However, it should be noted that without the one-off project and acquisition costs and acquisition adjustments, operating costs would have been significantly lower.

Profit before tax declined by 21.4% as compared to 2018. The lower profit before tax was due to the abovementioned costs incurred, additional finance costs on borrowings for the Auric Malaysia acquisition and impact of MFRS 16.

With the Auric Malaysia contribution, MFRS 16 impact and unusual items adjusted, the comparative profit after tax (PAT) grew by 25.7% from RM 34.1 million to RM 42.8 million as compared to 2018.

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Comments to the Performance of the Business Segments
Marketing and Distribution segment

Under the segment Marketing and Distribution, the Group provides the full range of services. The service portfolio ranges from marketing and sales, to distribution and logistics, invoicing and credit control, handling of inventory and trade returns and other value-added services.

	Individual 3 rd Quarter				Immediately Preceding 2 nd Quarter			Cumulative 3 rd Quarter			
	30/09/2019	30/09/2018	Changes		30/06/2019	Changes		30/09/2019	30/09/2018	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	805,836	726,384	79,452	10.9%	815,495	(9,659)	(1.2%)	2,357,554	2,110,852	246,702	11.7%
Segment profit before interest and tax	13,461	4,935	8,526	172.8%	16,247	(2,786)	(17.1%)	29,323	19,628	9,695	49.4%
<i>Adjusted for:</i>											
<i>Less: Auric Malaysia's results (EBIT) ⁽¹⁾</i>	11,069	-	11,069	-	21,351	(10,282)	(48.2%)	32,420	-	32,420	-
<i>Add: Unusual items:</i>											
<i>- Amortization of intangible assets ⁽²⁾</i>	3,033	-	3,033	-	3,033	-	-	6,066	-	6,066	-
<i>- Cost incurred for growth and efficiency improvement project</i>	-	-	-	-	4,545	4,545	100.0%	15,747	-	15,747	-
<i>- Purchase price allocation Adjustments, before tax ⁽³⁾</i>	-	-	-	-	7,574	7,574	100.0%	7,574	-	7,574	-
Comparative segment results	5,425	4,935	490	9.9%	10,048	(4,623)	(46.0%)	26,290	19,628	6,662	33.9%

Notes
⁽¹⁾ Auric Malaysia's profit before interest and tax from date of acquisition to period ended September 30, 2019.

⁽²⁾ Amortization of intangible assets recognized pursuant to purchase price allocation.

⁽³⁾ Purchase price allocation adjustments on the acquisition of Auric Malaysia, before tax.

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Marketing and Distribution segment (continued)

Quarterly

Revenues for the quarter grew by 10.9% compared to the corresponding third quarter of 2018, increasing from RM 726.4 million to RM 805.8 million, while decreasing by 1.2% against those of the preceding second quarter of 2019 which was RM 815.5 million. This segment's improved revenue against the corresponding third quarter reflects the positive contribution from Auric Malaysia business, in addition to ongoing organic growth of existing clients and new clients secured in the fourth quarter of 2018. The downturn compared to the preceding second quarter of 2019 was primarily due to lack of festive period sales during the quarter.

The operating result for the quarter was RM 13.5 million, which was a 172.8% increase on RM 4.9 million reported for the same third quarter in 2018 and below the preceding second quarter of 2019 of RM 16.2 million by 17.1%. The improvement in operating result against the corresponding third quarter was predominantly because of the contribution from Auric Malaysia business which was somewhat offset by amortization of intangible assets. The reduction in operating result against the preceding quarter of 2019 was primary due to lack of festive period sales during the quarter and an increase in market hygiene costs.

With Auric Malaysia contribution and unusual items adjusted, the comparative operating result grew by 9.9% from RM 4.9 million to RM 5.4 million as compared to the corresponding third quarter of 2018, while decreasing by 46.0% from RM 10.0 million in the preceding second quarter of 2019 due to a reduction in revenues related to festive sales in the preceding second quarter which are not present in the third quarter.

Year-to-date

Revenues for 2019 were RM 2.36 billion, which is 11.7% above revenues of RM 2.11 billion in 2018. This segment's revenues grew due to the acquisition of Auric Malaysia, ongoing organic growth with existing clients and new clients secured in the fourth quarter of 2018.

The operating result for 2019 was RM 29.3 million, which is a 49.4% increase on 2018 predominantly due to the acquisition of Auric Malaysia with higher operating margins and revenue growth as highlighted above.

With the Auric Malaysia contribution, MFRS 16 impact and unusual items adjusted, the comparative segment result grew by 33.9% from RM 19.6 million to RM 26.3 million as compared to 2018, which reflects organic growth on existing clients, increases from business development and operating efficiency improvement.

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Logistics segment

Under the segment Logistics, the Group provides supply chain services ranging from warehousing and distribution, to order processing and sales collections. Sales and marketing services for clients in this segment are generally not provided by the Group but are mostly run by the clients. The businesses represented under this segment include the Healthcare business and supply chain focused parts of the Consumer Goods business.

	Individual 3 rd Quarter				Immediately Preceding 2 nd Quarter			Cumulative 3 rd Quarter			
	30/09/2019	30/09/2018	Changes		30/06/2019	Changes		30/09/2019	30/09/2018	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	889,909	775,767	114,142	14.7%	740,066	149,843	20.2%	2,440,566	2,260,366	180,200	8.0%
Segment profit before interest and tax	17,411	11,133	6,278	56.4%	11,735	5,676	48.4%	41,881	34,662	7,219	20.8%

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Logistics segment (continued)

Quarterly

Revenues for the quarter grew by 14.7% compared to the corresponding third quarter of 2018, increasing from RM 775.8 million to RM 889.9 million, while improving by 20.2% against those of the preceding second quarter of 2019 which were RM 740.1 million. The growth in revenue compared to the corresponding third quarter and preceding second quarter reflects the organic growth in this segment, change in sales mix and does not have a festive period effect as the products are not seasonal. There is some fluctuation from quarter to quarter based on government tender sales and the upturn in the third quarter reflects this.

The operating result for the quarter was RM 17.4 million, which is a 56.4% increase on the RM 11.1 million reported for the corresponding third quarter of 2018 and a 48.4% increase on the RM 11.7 million reported for the preceding second quarter of 2019. The improvement in operating result compared to the corresponding third quarter and preceding second quarter reflects the improved revenue and continued gains from operational efficiencies.

Year-to-date

Revenues for 2019 grew by 8.0% compared to 2018, increasing from RM 2.26 billion to RM 2.44 billion. The growth in revenue was organically driven.

The operating result for 2019 was RM 41.9 million, which is a 20.8% increase on 2018. This reflects the strong revenue supported by improving margin mix and continued gain from operational efficiencies.

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Others segment

This segment consists most notably of the Famous Amos chocolate chip cookie retail chain as well as central overheads including rental in 2018.

	Individual 3 rd Quarter				Immediately Preceding 2 nd Quarter			Cumulative 3 rd Quarter			
	30/09/2019	30/09/2018	Changes		30/06/2019	Changes		30/09/2019	30/09/2018	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	14,565	13,839	726	5.2%	17,968	(3,403)	(18.9%)	48,394	42,909	5,485	12.8%
Segment profit before interest and tax	(2,782)	(879)	(1,903)	(>100.0%)	(256)	(2,526)	(>100.0%)	(7,157)	(1,994)	(5,163)	(>100.0%)

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Others segment (continued)

Quarterly

Revenues for the quarter grew by 5.2% from RM 13.8 million to RM 14.6 million as compared to corresponding third quarter of 2018 while decreased by 18.9% on the preceding second quarter of 2019. The improvement in revenues against corresponding third quarter reflects the improved per store revenue growth as outlet openings are strategically driven, while the reduction from the preceding second quarter is due to normal seasonal flows which create much larger festive sales in the second quarter. At the end of the third quarter of 2019, Famous Amos operated 93 outlets nationwide and two outlets in Brunei.

The operating result for the third quarter of 2019 was -RM 2.8 million, which represents a lower operating result as compared to corresponding third quarter of 2018, due to unrealized derivative losses recorded for interest rate swap and the impact of MFRS 16. As compared to preceding second quarter of 2019, the lower operating result was largely due to seasonal revenue fluctuation.

Year-to-date

Revenues were RM 48.4 million in 2019, which increased by 12.8% against 2018. The improvement in revenues against prior year reflects improved per store revenue growth as outlet openings are more strategically driven.

The operating result for 2019 was -RM 5.2 million lower than prior year predominantly due to a one-off cost relating to acquisition of Auric Malaysia and the above mentioned costs incurred.

2. Material Changes in Profit before Taxation for the Current Quarter as compared to the Immediately Preceding Quarter

There were no material items that have affected the performance of the third quarter of 2019 compared to the second quarter of 2019.

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3. Prospects

The Group continues to take an optimistic outlook on 2019. Prospects remain good for the Logistics and Others segments, and the Marketing and Distribution segment has a positive outlook due to growth in the existing consumer goods business, an improving cost base and a strong contribution from the acquisition of Auric Malaysia. Benefits from the ongoing growth and profitability project are reflected in the year-to-date results and will continue to grow over the coming quarters, with no further costs to be incurred. The integration of Auric Malaysia is largely complete with all staff and systems integrated into the Group's structures and systems and operating results continue to exceed projections.

The Group continues to leverage on its deep market knowledge and reach in Malaysia, gained in over more than 90 years, and from its position in the global DKSH Group, which is the leading Market Expansion Services company in Asia. The global DKSH Group provides to the Group a world class information technology platform, best in class strategic and operational guidance, and the benefits of a strong network of group companies across Asia. Malaysia remains an ideal environment for further growth in the medium to long term and the Group expects to continue to grow with the Malaysian economy.

4. Variance of Actual Profit from Forecast Profit

The Group did not issue any profit forecast.

5. Taxation

	Quarter ended September 30, 2019 RM'000	Quarter ended September 30, 2018 RM'000	Period ended September 30, 2019 RM'000	Period ended September 30, 2018 RM'000
Current year income tax	4,298	3,884	14,593	13,706
Deferred tax	<u>2,719</u>	<u>(298)</u>	<u>48</u>	<u>(1,413)</u>
	<u><u>7,017</u></u>	<u><u>3,586</u></u>	<u><u>14,641</u></u>	<u><u>12,293</u></u>

The effective tax rate for the quarter ended September 30, 2019 was higher compared to similar quarter and prior period as all subsidiaries contributed positively to the bottom line, except for the holding company which experienced low profit as a result of one-off cost and financing cost incurred for acquisition of Auric Malaysia which are not tax deductible.

6. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at October 29, 2019.

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7. Group Borrowings and Debt Securities

	As at September 30, 2019 RM'000	As at September 30, 2018 RM'000
Unsecured and fully denominated in Ringgit Malaysia:		
<u>Short Term Borrowings</u>		
- Bank borrowings	150,130	157,800
<u>Long Term Borrowings</u>		
- Advances from holding companies	32,937	32,842
- Bank borrowings	500,000	-
	<u>532,937</u>	<u>32,842</u>
Total borrowings	<u>683,067</u>	<u>190,642</u>

8. Disclosure of Derivatives

Type of derivatives	Contract / Notional Value September 30, 2019 RM'000	Fair Value September 30, 2019 RM'000
Foreign exchange contracts		
- less than 1 year	20,680	20,732
Interest rate swap contract		
- 1 year to 3 year	250,000	247,462
Total	<u>270,680</u>	<u>268,194</u>

Foreign currency transactions in Group companies are accounted for at exchange rates ruling at transaction dates. Foreign currency monetary assets and liabilities are translated at exchange rates ruling at the date of the statement of financial position, unless hedged by forward foreign exchange contracts when the rates specified in such forward contracts are used. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the statement of comprehensive income.

Future liabilities in foreign currencies are covered by forward-purchased currencies from reputable banks when their amounts and due dates are known. Forward hedges are exclusively used for bona-fide and documented trade transactions and not for speculative purposes in line with the DKSH Treasury policy. There is no change to the type of derivative financial contracts

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entered into, cash requirements of the derivatives, risk associated with the derivatives and the risk management objectives and policies to mitigate this risk since the financial year ended December 31, 2018.

The Group's open foreign exchange contracts have been fair valued using the current market rates as at September 30, 2019 resulting in an unrealized derivative gain of RM 0.1 million.

This unrealized derivative gain was due to the slight strengthening of the MYR after forex contracts were entered.

In first quarter of 2019, the Group entered into interest rate swap ("IRS") contract to manage its exposure of the floating rate borrowing. The cumulative IRS contract to-date amounted to RM 250 million. The IRS contract was entered to mitigate the risk of increase in interest rate over the hedging period on the floating rate borrowing. The fair value gains or losses on remeasuring the fair value of the IRS contract is recognized immediately in statement of comprehensive income as unrealized item.

The fair value of the IRS recognized in statement of comprehensive income for nine months ended September 30, 2019 amounted to unrealized loss RM 2.5 million.

In total, a net unrealized loss on derivative contracts amounting to RM 2.4 million had been debited to the statement of comprehensive income for the nine months ended September 30, 2019.

9. Fair Value Changes of Financial Liabilities

Other than derivatives which are classified as liabilities only when they are at fair value loss position as at the end of the reporting period, the Group does not remeasure its financial liabilities at fair value after the initial recognition.

10. Changes in Material Litigation

There is no material litigation as at October 29, 2019.

11. Dividend Proposed or Declared

No dividend was declared or recommended for the quarter under review.

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12. Earnings Per Share

- (a) The earnings used as the numerator in calculating basic and diluted earnings per share for the quarter under review and for nine months ended September 30, 2019 are RM 10,744,000 and RM 21,770,000 respectively.
- (b) The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share for the quarter under review and for nine months ended September 30, 2019 is 157,658,076.

13. Auditors' report on preceding annual financial statements

There was no qualification to the audited financial statements of the Company and its subsidiaries for the financial year ended December 31, 2018.

By Order of the Board

Lwee Wen Ling (MAICSA 7058065)
Company Secretary

Andre' Chai P'o-Lieng (MAICSA 7062103)
Company Secretary

Petaling Jaya
October 29, 2019