

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, 2020

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER
AND NINE MONTHS ENDED SEPTEMBER 30, 2020**

	INDIVIDUAL 3RD QUARTER		CUMULATIVE 3RD QUARTER	
	30/09/2020 Unaudited RM'000	30/09/2019 Unaudited RM'000	30/09/2020 Unaudited RM'000	30/09/2019 Unaudited RM'000
1 Revenue	1,635,645	1,710,310	4,807,205	4,846,514
2 Operating expenses	(1,615,644)	(1,683,797)	(4,741,483)	(4,786,683)
3 Other operating income	6,758	1,577	10,951	4,216
4 Profit before interest and tax	26,759	28,090	76,673	64,047
5 Finance cost	(8,412)	(10,329)	(26,256)	(27,636)
6 Profit before tax	18,347	17,761	50,417	36,411
7 Taxation	(4,705)	(7,017)	(18,840)	(14,641)
8 Profit for the period, net of tax	13,642	10,744	31,577	21,770
9 Net profit for the period	13,642	10,744	31,577	21,770
10 Other comprehensive income :				
- Currency translation differences arising from consolidation	(11)	(6)	(5)	(1)
11 Total comprehensive income	13,631	10,738	31,572	21,769
12 Net profit attributable to owners of the parent	13,642	10,744	31,577	21,770
13 Total comprehensive income attributable to owners of the parent	13,631	10,738	31,572	21,769
14 Earnings per share (EPS) based on item 12 above (See Note 1 below)				
(i) EPS attributable to owners of parent (sen)	8.65	6.81	20.03	13.81
15 Cash earnings per share (EPS) (See Notes 1 and 2 below)				
(i) Cash EPS attributable to owners of parent (sen)	13.01	11.50	32.64	24.60

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, 2019 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, 2020**

	30/09/2020 Unaudited RM'000	31/12/2019 Audited RM'000
1 Non Current Assets		
Property, plant and equipment	31,031	33,023
Right-of-use assets	115,983	131,722
Intangible assets	384,829	393,949
Deferred tax assets	6,943	6,211
	<u>538,786</u>	<u>564,905</u>
2 Current Assets		
Inventories	741,227	741,045
Trade and other receivables	1,428,475	1,393,300
Cash and bank balances	96,942	22,059
	<u>2,266,644</u>	<u>2,156,404</u>
3 Total Assets	<u>2,805,430</u>	<u>2,721,309</u>
4 Equity		
Ordinary share capital	182,172	182,172
Foreign currency translation reserve	138	143
Retained earnings	469,519	437,942
Equity attributable to owners of parent	<u>651,829</u>	<u>620,257</u>
5 Current Liabilities		
Trade and other payables	1,274,945	1,417,796
Derivative financial instrument	4,898	1,402
Lease liabilities	28,760	30,952
Borrowings	237,000	620
Taxation	9,504	2,127
	<u>1,555,107</u>	<u>1,452,897</u>
6 Non Current Liabilities		
Borrowings	490,590	527,287
Derivative financial instrument	1,890	1,146
Lease liabilities	93,008	104,545
Long term liabilities	2,737	2,737
Deferred tax liabilities	10,269	12,440
	<u>598,494</u>	<u>648,155</u>
7 Total Liabilities	<u>2,153,601</u>	<u>2,101,052</u>
8 Total Equity and Liabilities	<u>2,805,430</u>	<u>2,721,309</u>
9 Net assets per share attributable to ordinary equity holders of the company (RM)	<u>4.1344</u>	<u>3.9342</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, 2019 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, 2020

	----- Attributable to owners of the parent -----			Distributable	Total Equity
	----- Non-distributable -----				
	Issued and fully paid ordinary shares				
	Number of shares	Amount	Foreign currency translation reserve	Retained earnings	
	000	RM'000	RM'000	RM'000	RM'000
<u>NINE MONTHS ENDED SEPTEMBER 30, 2020</u>					
At January 1, 2020	157,658	182,172	143	437,942	620,257
Total comprehensive income for the period	-	-	(5)	31,577	31,572
At September 30, 2020	157,658	182,172	138	469,519	651,829
<u>NINE MONTHS ENDED SEPTEMBER 30, 2019</u>					
At January 1, 2019	157,658	182,172	140	414,661	596,973
Total comprehensive loss for the period	-	-	(1)	21,770	21,769
Dividends	-	-	-	(15,766)	(15,766)
At September 30, 2019	157,658	182,172	139	420,665	602,976

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, 2019 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, 2020**

	30/09/2020 Unaudited RM'000	30/09/2019 Unaudited RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	50,417	36,411
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	8,719	7,999
Depreciation of right-of-use assets	27,603	27,452
Amortization of intangible assets	9,119	6,086
Net unrealized derivative losses	4,278	2,430
Loss/(gain) on disposal of property, plant and equipment	350	(135)
Write-back of provision for property restoration cost	-	(20)
Interest income	(349)	(715)
Interest expenses	20,719	19,982
Interest expenses on lease liabilities	5,537	6,303
Loss allowance on trade receivables	5,454	2,795
Inventories written off	16,580	12,702
Net write-down of slow moving inventories	462	3,412
Net unrealized foreign exchange (gains)/losses	(476)	2,013
Operating cash flows before changes in working capital	<u>148,413</u>	<u>126,715</u>
Changes in working capital:		
Inventories	(17,224)	25,692
Trade and other receivables	(42,643)	(92,090)
Trade and other payables	(140,290)	(185,561)
	<u>(200,157)</u>	<u>(251,959)</u>
Interest paid	(26,196)	(19,927)
Interest received	349	715
Tax paid	(12,349)	(15,989)
	<u>(38,196)</u>	<u>(35,201)</u>
Net cash flows used in operating activities	<u>(89,940)</u>	<u>(160,445)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(9,262)	(9,850)
Acquisition of subsidiaries, net cash paid	-	(467,059)
Proceed from disposal of property, plant and equipment	-	167
Net cash flows used in investing activities	<u>(9,262)</u>	<u>(476,742)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings	199,683	599,729
Repayment of lease liabilities	(25,593)	(30,769)
Dividend paid	-	(15,766)
Net cash flows generated from financing activities	<u>174,090</u>	<u>553,194</u>
CHANGES IN CASH AND CASH EQUIVALENTS	74,888	(83,993)
CURRENCY TRANSLATION DIFFERENCES	(5)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	22,059	101,970
CASH AND CASH EQUIVALENTS AT END OF REPORTING PERIOD	<u>96,942</u>	<u>17,976</u>
Note : Cash and cash equivalents comprise of :-		
Cash and bank balances	96,942	17,976
	<u>96,942</u>	<u>17,976</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, 2019 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, 2020</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	2,540,327	2,167,250	32,351	4,739,928
Rendering of services	22,167	45,110	-	67,277
Total revenue from contracts with customers	2,562,494	2,212,360	32,351	4,807,205
Results				
Segment profit/(loss) before interest and tax	60,197	33,684	(17,208)	76,673
Finance cost				(26,256)
Taxation				(18,840)
Profit for the period, net of tax				<u>31,577</u>
As at September 30, 2020				
Net assets				
Segment assets	1,330,302	864,210	90,524	2,285,036
Unallocated assets				520,394
Total assets				<u>2,805,430</u>
Segment liabilities	(548,995)	(587,505)	(409)	(1,136,909)
Unallocated liabilities				(1,016,692)
Total liabilities				<u>(2,153,601)</u>
Other information				
Capital expenditure	1,382	1,903	3,910	7,195
Depreciation of property, plant and equipment	2,324	2,272	4,123	8,719
Depreciation of right-of-use assets	16,126	6,168	5,309	27,603
Amortization of intangible assets	9,119	-	-	9,119
Loss allowance on trade receivables	3,330	1,775	349	5,454
Inventories written off	14,078	1,206	1,296	16,580

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, 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/(loss) before interest and tax	29,323	41,881	(7,157)	64,047
Finance cost				(27,636)
Taxation				(14,641)
Loss for the period, net of tax				<u>21,770</u>
As at September 30, 2019				
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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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 November 25, 2020.

2. Accounting Policies and Basis of Preparation

The unaudited condensed consolidated interim financial statements for the current quarter and nine months ended September 30, 2020 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, 2019.

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, 2019. The new, revised and amended MFRS and IC Interpretations, which are effective for the financial periods beginning on or after January 1, 2020, did not have any material impact on the financial results of the Group.

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, 2019 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

There were no unusual items affecting assets, liabilities, equity, net income or cash flows for the quarter under review.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

No dividend was paid during the quarter ended September 30, 2020.

9. Segment Information

The Group's segmental information for the financial nine months ended September 30, 2020 and September 30, 2019 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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	2,797	3,045	8,719	7,999
Depreciation of right-of-use assets	8,928	9,204	27,603	27,452
Amortization of intangible assets	3,041	3,039	9,119	6,086
Net unrealized derivative (gain)/losses	(1,160)	936	4,278	2,430
Rental income	(307)	(446)	(847)	(1,378)
Interest income	(53)	(366)	(349)	(715)
Interest expenses	6,619	8,220	20,719	19,982
Interest expenses on lease liabilities	1,793	2,009	5,537	6,303
Interest - other	-	100	-	1,351
(Gain)/loss on disposal of property, plant and equipment	(2)	(134)	350	(135)
Loss allowance on trade receivables	3,832	1,510	5,454	2,795
Inventories written off	8,172	6,756	16,580	12,702
Net write-down/(reversal) of slow-moving inventories	90	(2,310)	462	3,412
Net unrealized foreign exchange (gains)/losses	(2,031)	823	(476)	2,013
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, 2020.

13. Changes in the Composition of the Group

There were no changes in the composition of the Group during the quarter under review.

13. 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, 2020 and September 30, 2019, as well as the balances with the related parties as at September 30, 2020 and September 30, 2019:

	Current year ended September 30, 2020 RM'000	Preceding year ended September 30, 2019 RM'000	Intercompany balances - due from/(to) as at	
			September 30, 2020 RM'000	September 30, 2019 RM'000
Sale of goods and services:				
- related companies (goods)	4,130	3,333	1,133	1,744
- related companies (rental)	824	901	195	647
- related companies (cost sharing)	207	173	65	53
- related companies (human resource and information technology charges)	546	542	105	108
	<u>5,707</u>	<u>4,949</u>	<u>1,498</u>	<u>2,552</u>
Purchase of goods and services:				
- related companies (goods and services)	(16,438)	(14,525)	(4,556)	(2,962)
- related company (management fee)	(6,756)	(4,070)	(3)	(12)
- related company (royalty fee)	(3,509)	(163)	-	-
- related company (information technology charges)	(15,838)	(13,261)	(266)	(233)
Others (interest):				
- immediate holding company	(613)	(724)	(137)	(163)
- intermediate holding company	(297)	(335)	(62)	(74)
	<u>(43,451)</u>	<u>(33,078)</u>	<u>(5,024)</u>	<u>(3,444)</u>

The amounts receivable from or payable to related parties are unsecured, non-interest bearing and carry credit terms of 60 days. There were no overdue balances from related parties as at September 30, 2020.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Changes in Contingent Liabilities or Contingent Assets

There were no changes in contingent liabilities or contingent assets since the quarter ended September 30, 2020 and up to November 25, 2020.

15. Capital Commitments

Authorized capital commitments not provided for in this interim financial report as at September 30, 2020 are as follows:

	RM'000
Contracted	<u>928</u>
Analyzed as follows:	
- Property, plant and equipment	<u>928</u>

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ADDITIONAL INFORMATION REQUIRED BY THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD – NINE MONTHS ENDED SEPTEMBER 30, 2020
(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			
	30/9/2020	30/9/2019	Changes		30/6/2020	Changes		30/9/2020	30/9/2019	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	1,635,645	1,710,310	(74,665)	(4.4%)	1,448,089	187,556	13.0%	4,807,205	4,846,514	(39,309)	(0.8%)
Profit before interest and tax	26,759	28,090	(1,331)	(4.7%)	21,980	4,779	21.7%	76,673	64,047	12,626	19.7%
Profit before tax	18,347	17,761	586	3.3%	13,521	4,826	35.7%	50,417	36,411	14,006	38.5%
Profit after tax	13,642	10,744	2,898	27.0%	7,833	5,809	74.2%	31,577	21,770	9,807	45.0%
Profit attributable to owners of the parent	13,642	10,744	2,898	27.0%	7,833	5,809	74.2%	31,577	21,770	9,807	45.0%

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1. Review of Performance (continued)

Quarterly

Revenues for the quarter were 4.4% lower than the corresponding third quarter of 2019, decreasing from RM 1.71 billion to RM 1.64 billion, while improving by 13.0% from RM 1.45 billion in the preceding second quarter of 2020. The reduction in revenue in comparison to the corresponding third quarter was mainly due to the effects of the COVID-19 pandemic in the Logistics segment, offset by the improved revenue from the Marketing and Distribution segment which reflects the ongoing organic growth of existing clients and new clients secured in this segment. The increase in revenue compared to the preceding second quarter was as a result of the improved consumer demand due to the increased normalization of customers' business operations during the quarter with the implementation of the Recovery Movement Control Order ("RMCO") by the government.

Operating expenses for the quarter decreased by 4.0% from RM 1.68 billion to RM 1.62 billion as compared to the corresponding third quarter of 2019, while increasing by 13.1% against those of the preceding second quarter of 2020 which were at RM 1.43 billion. The changes in operating expenses were largely in line with the movement in revenue.

Profit before tax for the quarter grew by 3.3% compared to the same quarter of 2019, while improving by 35.7% compared to the preceding second quarter of 2020. The increase was mainly due to the unrealized derivative gains recorded for the interest rate swap in quarter three of 2020 while the improvement against the preceding second quarter was due to the increase in revenue.

Year-to-date

Revenues decreased marginally by 0.8% from RM 4.85 billion to RM 4.81 billion as compared to 2019, as a result of the effects of the COVID-19 pandemic. This effect is more pronounced in the Logistics segment and was somewhat offset by the improved revenue from the Marketing and Distribution segment due to the positive contribution from Auric Malaysia in addition to ongoing organic growth with existing clients and new clients secured.

The operating costs decreased by 0.9% from RM 4.79 billion to RM 4.74 billion. These cost decreases are largely in line with the decline in revenue, although they decline slightly more, highlighting underlying cost efficiencies that have been realized.

Profit before tax improved by 38.5% compared to 2019 due to the contribution from Auric Malaysia business, ongoing organic growth of existing clients and new clients secured, and the presence of costs relating to the growth and efficiency improvement project and purchase price allocation adjustments in 2019, offset by the effects of the COVID-19 pandemic.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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			
	30/09/2020	30/09/2019	Changes		30/06/2020	Changes		30/09/2020	30/09/2019	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	896,011	805,836	90,175	11.2%	826,170	69,841	8.5%	2,562,494	2,357,554	204,940	8.7%
Segment profit before interest and tax	16,338	13,461	2,877	21.4%	21,433	(5,095)	(23.8%)	60,197	29,323	30,874	>100.0%

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Marketing and Distribution segment (continued)

Quarterly

Revenues for the quarter grew by 11.2% compared to the corresponding third quarter of 2019, increasing from RM 805.8 million to RM 896.0 million, while improving by 8.5% against those of the preceding second quarter of 2020 which was RM 826.2 million. This segment's improved revenue compared to the corresponding third quarter reflects the ongoing organic growth of existing clients and new clients secured, while the increase compared to the preceding second quarter of 2020 reflects the increase in consumer demand due to the normalization of customers business operations during the third quarter with the implementation of RMCO by the government.

The operating result for the quarter was RM 16.3 million, which was a 21.4% increase from RM 13.5 million reported for the same third quarter in 2019 and a 23.8% decline from RM 21.4 million reported for the preceding second quarter of 2020. The improvement in operating result against the corresponding third quarter was mainly due to the increase in revenue, while the decline compared to the preceding second quarter was mainly due to the increase in market hygiene costs, which are influenced by COVID-19.

Year-to-date

Revenues grew by 8.7% from RM 2.36 billion to RM 2.56 billion as compared to 2019. This revenue growth was due to the positive contribution from the Auric Malaysia business in addition to ongoing organic growth with existing clients and new clients secured.

The operating result for 2020 was RM 60.2 million, which was a more than 100.0% increase on RM 29.3 million reported in 2019 predominantly due to the contribution from the Auric Malaysia business, ongoing organic growth of existing clients and new clients secured, and the non-recurring cost incurred for the growth and efficiency improvement project and the presence of purchase price allocation adjustments in 2019.

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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			
	30/09/2020	30/09/2019	Changes		30/06/2020	Changes		30/09/2020	30/09/2019	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	726,915	889,909	(162,994)	(18.3%)	615,351	111,564	18.1%	2,212,360	2,440,566	(228,206)	(9.4%)
Segment profit before interest and tax	13,015	17,411	(4,396)	(25.2%)	5,789	7,226	>100.0%	33,684	41,881	(8,197)	(19.6%)

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Logistics segment (continued)

Quarterly

Revenues for the quarter reduced by 18.3% compared to the corresponding third quarter of 2019, decreasing from RM 889.9 million to RM 726.9 million, while improving by 18.1% against those of the preceding second quarter of 2020 which was RM 615.4 million. The reduction in revenue compared to the corresponding third quarter was due to the effects of the COVID-19 pandemic and the timing of government tenders. However, the segment's revenue has grown compared to the preceding second quarter reflecting an ongoing recovery in consumer demand which was affected during the Movement Control Order ("MCO") in the preceding quarter.

The operating result for the quarter was RM 13.0 million, which is a 25.2% below the corresponding third quarter of 2019, but more than a 100.0% increase compared to the preceding second quarter of 2020, due to the movement in revenue as mentioned above.

Year-to-date

Revenues for 2020 reduced by 9.4% compared to 2019, decreasing from RM 2.44 billion to RM 2.21 billion. The downturn in revenue was mainly due to the effects of the COVID-19 pandemic and the timing of government tenders.

The operating result for 2020 was RM 33.7 million, which is a 19.6% below the prior year. The reductions reflect slightly lower sales levels due to the abovementioned.

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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.

	Individual 3 rd Quarter				Immediately Preceding 2 nd Quarter			Cumulative 3 rd Quarter			
	30/09/2020	30/09/2019	Changes		30/06/2020	Changes		30/09/2020	30/09/2019	Changes	
	RM'000	RM'000	RM'000	%	RM'000	RM'000	%	RM'000	RM'000	RM'000	%
Revenue	12,719	14,565	(1,846)	(12.7%)	6,568	6,151	93.7%	32,351	48,394	(16,043)	(33.2%)
Segment loss before interest and tax	(2,594)	(2,782)	188	6.8%	(5,242)	2,648	50.5%	(17,208)	(7,157)	(10,051)	>(100.0%)

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Others segment (continued)

Quarterly

Revenues for the quarter declined by 12.7% from RM 14.6 million to RM 12.7 million compared to the corresponding third quarter of 2019, while increasing by 93.7% against those of the preceding second quarter of 2020 which were RM 6.6 million. The reduction in revenue compared to the corresponding third quarter was due to business operations being affected by the COVID-19 pandemic while the improvement against the preceding second quarter was due to the recovery of sales for Famous Amos which resumed in May 2020 with progressive re-opening of outlets. At the end of the third quarter of 2020, there were a total of 99 outlets located in West and East Malaysia as well as two outlets in Brunei.

The operating result for the quarter was -RM 2.6 million, representing an improvement by 6.8% compared to the corresponding third quarter in 2019, whilst improving by 50.5% against those of the preceding second quarter of 2020 which was -RM 5.2 million. The improvement against the corresponding third quarter was contributed by the unrealized derivative gains whilst the improvement against the preceding second quarter was due to the abovementioned increase in revenue and the unrealized derivative gains recorded in the quarter, whilst the operations cost base remains relatively unchanged.

Year-to-date

Revenues for 2020 reduced by 33.2% compared to 2019, decreasing from RM 48.4 million to RM 32.4 million. The downturn in revenue was due to business operations being affected by the imposition of the MCO by the government.

The operating result for 2020 was RM 10.1 million lower than prior year predominantly due to lower sales recorded as mentioned above, increased unrealized derivatives loss recorded for interest rate swap and financing cost incurred for acquisition of Auric Malaysia.

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 2020 compared to the second quarter of 2020.

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3. Prospects

The year 2020 continues to be marked by the COVID-19 pandemic and the related Movement Control Order (“MCO”), Recovery Movement Control Order (“RMCO”), and Conditional Movement Control Order (“CMCO”) in Malaysia from March 18, 2020 onwards. These developments have had significant effects on the market. However, the Group has a well-diversified portfolio which continues to largely weather the impact. The Group was well prepared with a comprehensive and rigorous business continuity plan. Supply chain operations continued at full capacity, operating under a total quarantine solution throughout the MCO, RMCO, and CMCO periods and all other operations seamlessly switched to remote and flexible methods of working with no significant disruptions.

At the time of writing, Malaysia is in the midst of the third wave of COVID-19 and most states are subject to a CMCO, which does not reduce consumer demand to the low levels seen in the original MCO in March and April, but does slow the recovery to varying degrees in different areas of the Group’s business. The current CMCO is indicative of the unpredictable environment we now operate in and the uncertainty likely to face Malaysia in the near future. Therefore, we remain cautious about the short-term outlook and plan our business accordingly. The Group is prepared for an accelerated recovery while prudently managing forecasts and costs in the meantime.

Amidst uncertainties, the Group is confident about the growth opportunities in the medium to long term. The Group remains focused on product innovation, business development, and capturing cost efficiencies.

4. Variance of Actual Profit from Forecast Profit

The Group did not issue any profit forecast.

5. Taxation

	Quarter ended September 30, 2020 RM'000	Quarter ended September 30, 2019 RM'000	Period ended September 30, 2020 RM'000	Period ended September 30, 2019 RM'000
Current year income tax	7,132	4,298	21,744	14,593
Deferred tax	(2,427)	2,719	(2,904)	48
	<u>4,705</u>	<u>7,017</u>	<u>18,840</u>	<u>14,641</u>

The effective tax rate for the quarter ended September 30, 2020 was lower compared to corresponding quarter due to timing difference arising from the recognition of deferred tax assets. The effective tax rate for the period ended September 30, 2020 was slightly lower compared to prior period. The overall effective tax rate remains high as the financing costs incurred for the acquisition of Auric Malaysia is not tax deductible for the holding company whilst the expenses such as depreciation for loss making subsidiary are not tax deductible.

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6. Status of Corporate Proposals Announced

There were no corporate proposals announced but not completed as at November 25, 2020.

7. Group Borrowings and Debt Securities

	As at September 30, 2020 RM'000	As at September 30, 2019 RM'000
Unsecured and fully denominated in Ringgit Malaysia:		
<u>Short Term Borrowings</u>		
- Bank borrowings	237,000	150,130
<u>Long Term Borrowings</u>		
- Advances from holding companies	40,590	32,937
- Bank borrowings	450,000	500,000
	<u>490,590</u>	<u>532,937</u>
Total borrowings	<u><u>727,590</u></u>	<u><u>683,067</u></u>

8. Disclosure of Derivatives

Type of derivatives	Contract / Notional Value September 30, 2020 RM'000	Fair Value September 30, 2020 RM'000
Foreign exchange contracts		
- less than 1 year	5,907	5,907
Interest rate swap contract		
- 1 year to 2 year	250,000	243,951
Total	<u><u>255,907</u></u>	<u><u>249,858</u></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.

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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 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, 2019.

The Group's open foreign exchange contracts have been fair valued using the current market rates as at September 30, 2020 resulting in an unrealized derivative loss of RM 0.7 million.

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

In 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 current quarter amounted to unrealized derivative loss of RM 6.1 million.

In total, a net unrealized loss on derivative contracts amounting to RM 4.3 million had been debited to the statement of comprehensive income for the nine months ended September 30, 2020.

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 November 25, 2020.

11. Dividend Proposed or Declared

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 are RM 13,642,000 and RM 31,577,000 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, 2020 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, 2019.

By Order of the Board

Lwee Wen Ling (MAICSA 7058065)
SSM PC No. 201908000378
Company Secretary

Andre' Chai P'o-Lieng (MAICSA 7062103)
SSM PC No. 202008001116
Company Secretary

Petaling Jaya
November 25, 2020