GLOBALTEC FORMATION BERHAD

(Incorporated in Malaysia)

Company No: 953031-A

SECOND QUARTERLY REPORT FOR THE FINANCIAL YEAR ENDING 30 JUNE 2020

Contents **Page**

Condensed unaudited consolidated statement of profit or loss and other comprehensive income for the financial period ended 31 December 2019

	Current quarter	Preceding year corresponding quarter	Current period	Preceding year corresponding period
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
	RM'000	RM'000	RM'000	RM'000
Revenue	49,077	60,673	102,043	115,316
Cost of sales	(38,813)	(48,215)	(80,222)	(91,377)
Gross profit	10,264	12,458	21,821	23,939
Other operating expenses	(9,025)	(10,014)	(17,982)	(20,062)
Other operating income	349	635	459	678
Results from operating activities	1,588	3,079	4,298	4,555
Finance income	243	224	661	500
Finance costs	(388)	(565)	(721)	(915)
Profit before tax	1,443	2,738	4,238	4,140
Tax expense	(662)	(794)	(1,639)	(1,625)
Profit for the period	781	1,944	2,599	2,515
Other comprehensive (expense)/income, net of tax				
Foreign currency translation differences for foreign operations	(1,726)	1,610	(360)	4,354
Total comprehensive (expense)/income for the period	(945)	3,554	2,239	6,869
Profit/(Loss) attributable to:				
Owners of the Company	1,746	2,666	3,745	3,622
Non-controlling interests	(965)	(722)	(1,146)	(1,107)
Profit for the period	781	1,944	2,599	2,515
Total comprehensive income/(expense) attributable to:				
Owners of the Company	560	4,106	3,504	6,690
Non-controlling interests	(1,505)	(552)	(1,265)	179
Total comprehensive (expense)/income for the period	(945)	3,554	2,239	6,869
Basic earnings per ordinary share (sen)	0.649	0.991	1.392	1.346
Diluted earnings per ordinary share (sen)	N/A	N/A	N/A	N/A

(The condensed unaudited consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the Annual Report for the year ended 30 June 2019)

Condensed unaudited consolidated statement of financial position as at 31 December 2019

	As at 31.12.2019 RM'000	Audited 30.6.2019 RM'000
Non-current assets		
Property, plant and equipment	111,284	110,324
Exploration and evaluation assets	99,592	99,339
Intangible assets	27,510	27,706
Deferred tax assets	773	769
Total non-current assets	239,159	238,138
Current assets		
Biological assets	267	172
Receivables, deposits and prepayments	39,955	38,213
Inventories	22,877	28,368
Contract assets	7,043	7,631
Other investments	183	185
Current tax assets	1,618	1,373
Fixed deposits with maturity more than 3 months but less than 12 months	-	6,000
Cash and cash equivalents	58,986	40,750
Total current assets	130,929	122,692
TOTAL ASSETS	370,088	360,830
Equity attributable to owners of the Company		
Share capital	643,647	643,647
Business combination deficit	(157,064)	(157,064)
Reserves	(249,761)	(253,266)
	236,822	233,317
Non-controlling interests	38,429	39,694
Total equity	275,251	273,011
Long term and deferred liabilities		
Borrowings	6,859	6,562
Deferred tax liabilities	6,794	5,206
Total long term and deferred liabilities	13,653	11,768
Current liabilities		
Payables and accruals	38,352	35,080
Tax liabilities	555	361
Provisions	25,953	25,660
Borrowings	16,324	14,950
Total current liabilities	81,184	76,051
Total liabilities	94,837	87,819
TOTAL EQUITY AND LIABILITIES	370,088	360,830
Net assets per share attributable to owners of the Company (RM)	0.880	0.867

(The condensed unaudited consolidated statement of financial position should be read in conjunction with the Annual Report for the year ended 30 June 2019)

Condensed unaudited consolidated statement of changes in equity for the financial period ended 31 December 2019

	Attributable to owners of the Company							
	Share capital	Foreign currency translation reserve	Fair value adjustment reserve	Business combination deficit	Accumulated losses	Total	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2019	643,647	(553)	(44,479)	(157,064)	(208,233)	233,318	39,694	273,012
Total comprehensive (expense)/income for the period	-	(241)	-	-	3,745	3,504	(1,265)	2,239
At 31 December 2019	643,647	(794)	(44,479)	(157,064)	(204,488)	236,822	38,429	275,251

	Attributable to owners of the Company									
	Share capital	Share premium	Capital reserve	Foreign currency translation reserve	Fair value adjustment reserve	Business combination deficit	Accumulated losses	Total	Non-controlling interests	Total equity
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 July 2018										
- As previously stated	538,174	105,473	6,041	(3,938)	(44,479)	(157,064)	(197,827)	246,380	62,834	309,214
- Effects of adoption of *MFRS 15*	-	-	-	-	-	-	1,608	1,608	-	1,608
- As restated	538,174	105,473	6,041	(3,938)	(44,479)	(157,064)	(196,219)	247,988	62,834	310,822
Total comprehensive income for the period	-	-	-	3,068	-	-	3,622	6,690	179	6,869
At 31 December 2018	538,174	105,473	6,041	(870)	(44,479)	(157,064)	(192,597)	254,678	63,013	317,691

(The condensed unaudited consolidated statement of changes in equity should be read in conjunction with the Annual Report for the year ended 30 June 2019)

Condensed unaudited consolidated statement of cash flows for the financial period ended 31 December 2019

	Current period 31.12.2019 RM'000	Preceding year corresponding period 31.12.2018 RM'000
Cash flows from operating activities		
Profit before tax	4,238	4,140
Adjustments for:		
Amortisation of customer relationships	197	197
Amortisation of development costs	-	25
Changes in fair value of other investments	2	10
Depreciation	5,786	4,996
Fair value loss on biological assets	(95)	113
Finance costs	721	915
Finance income	(661)	(500)
Gain on disposal of property, plant and equipment	(137)	(86)
Loss on disposal of other investment	-	20
Provision for warranties (net)	87	369
Unrealised foreign exchange loss	124	612
Operating profit before working capital changes	10,262	10,811
Changes in working capital:		
Inventories	5,581	(1,354)
Contract assets	589	-
Receivables, deposits and prepayments	(1,895)	(10,691)
Payables and accruals	4,348	5,172
Cash generated from operations	18,885	3,938
Warranties paid	(86)	(115)
Taxation paid (net)	(106)	(1,314)
Net cash generated from operating activities	18,693	2,509

Condensed unaudited consolidated statement of cash flows for the financial period ended 31 December 2019 (continued)

	Current period 31.12.2019 RM'000	Preceding year corresponding period 31.12.2018 RM'000
Cash flows from investing activities		
Exploration and evaluation expenditure incurred	(1,020)	(9,743)
Interest received	661	500
Decrease in tenure of fixed deposits	6,000	-
Proceeds from disposal of other investment	-	3,500
Proceeds from disposal of property, plant and equipment	290	88
Purchase of property, plant and equipment	(2,032)	(6,622)
Net cash generated from/(used in) investing activities	3,899	(12,277)
Cash flows from financing activities		
Interest paid	(721)	(915)
Repayment of bank borrowings – net	(2,945)	(626)
Net cash used in financing activities	(3,666)	(1,541)
Net increase/(decrease) in cash and cash equivalents	18,926	(11,309)
Effect of foreign exchange fluctuation on cash and cash equivalents	(540)	1,387
Cash and cash equivalents at beginning of period	39,704	55,389
Cash and cash equivalents at end of period	58,090	45,467

	Current period 31.12.2019 RM'000	Preceding year corresponding period 31.12.2018 RM'000
Cash and bank balances	27,667	21,844
Short term placement	17,419	18,773
Deposits with licensed banks	13,900	4,850
	58,986	45,467
Less:		
Bank overdraft	(896)	-
	58,090	45,467

(The condensed unaudited consolidated statement of cash flows should be read in conjunction with the Annual Report for the year ended 30 June 2019)

NOTES TO THE INTERIM FINANCIAL REPORT

A1. Basis of preparation

This interim financial report of Globaltec Formation Berhad ("GFB" or the "Company") and its subsidiaries ("Group") is unaudited and has been prepared in accordance with the Malaysian Financial Reporting Standard ("MFRS") 134, *Interim Financial Reporting* and Paragraph 9.22 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Malaysia") ("Listing Requirements").

A2. Significant Accounting Policies

Save as disclosed below, the significant accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the audited financial statements of the Group for the financial year ended 30 June 2019.

The Group had during the financial year inter-alia adopted MFRS 16, *Leases* (which was effective for annual periods beginning on or after 1 January 2019). The Group had applied MFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to accumulated losses at 1 July 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented as previously reported under MFRS 117, *Leases* and related interpretations.

MFRS 16, Leases

MFRS 16 replaces the guidance in MFRS 117, *Leases*, IC Interpretation 4, *Determining whether an Arrangement contains a Lease*, IC Interpretation 115, *Operating Leases – Incentives* and IC Interpretation 127, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short term leases and leases of low-value items. Lessor accounting remains similar to the previous accounting standard which continues to be classified as finance or operating lease.

At 1 July 2019, the Group has recognised lease liabilities of RM4.3 million with a corresponding right-of-use assets of equivalent amount. There is no impact to the Group's existing finance leases.

The Group has not adopted the following standards that have been issued by the Malaysian Accounting Standards Board but are not yet effective for the Group.

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2020

- Amendments to MFRS 3, *Business Combinations – Definition of a Business* Amendments to MFRS 101, *Presentation of Financial Statements* and MFRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*

MFRSs, Interpretations and amendments effective for annual periods beginning on or after 1 January 2021

- MFRS 17, *Insurance Contracts*

MFRSs, Interpretations and amendments effective for a date yet to be confirmed

- Amendments to MFRS 10, *Consolidated Financial Statements and MFRS 128, Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group plan to apply the abovementioned accounting standards, amendments and interpretations from the annual period beginning on 1 July 2020 for those amendments that are effective for annual periods beginning on or after 1 January 2020.

The accounting standard that is effective for annual period beginning on or after 1 January 2021 is currently not applicable to the Group.

A3. Qualified audit report

The preceding annual audited financial statements of the Group were reported on without any qualification.

A4. 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 current quarter and financial period.

A5. Seasonal and cyclical factors

There were no material seasonal or cyclical factors affecting the income and performance of the Group.

A6. Changes in estimates

There were no changes in the estimates of amounts which give a material effect for the financial period ended 31 December 2019.

A7. Dividends

The Board does not recommend any dividend for the financial period ended 31 December 2019.

A8. Valuation of property, plant and equipment

The Group measures and records its land and buildings at cost and does not revalue them.

A9. Material events subsequent to the period end

There were no material events subsequent to the financial period end.

A10. Changes in composition of the Group

There were no changes in the Group structure for the financial period and up to the date of this report.

A11. Capital commitments

Contracted but not provided for capital commitments as at 31 December 2019 were as follows:

	RM'000
In respect of:	
- Property, plant and equipment	2,289
- Lease agreements	2,346
Total	4,635

A12. Contingent liabilities/assets

As at 31 December 2019, the Company had executed corporate guarantees in favour of licensed financial institutions of up to a limit of RM35.4 million for credit facilities granted to subsidiaries. Out of the total banking facilities secured by corporate guarantees by the Company, a total of RM17.6 million was outstanding at the period end.

A13. Debt and equity securities

There were no issuances, cancellations, share splits, repurchases and repayments of the Company's debt or equity securities for the financial period ended 31 December 2019.

A14. Segmental information

Analysis by business segments being the primary basis of the Group's segmental reporting for the financial period ended 31 December 2019 is as follows:

	Integrated manufacturing services RM'000	Energy RM'000	Resources RM'000	Investment holding RM'000	Consolidation adjustments RM'000	Consolidated RM'000
Segment revenue						
Revenue from external customers	99,334	-	2,709	-	-	102,043
Inter-segment revenue	-	-	-	988	(988)	-
Total revenue	99,334	-	2,709	988		102,043
Segment profit/(loss)	7,754	(2,034)	(838)	(644)	-	4,238
Segment assets	182,297	107,939	50,238	74,889	(72,785)	342,578
Customer relationships						5,328
Goodwill on consolidation						22,182
Consolidated total assets						370,088

OTHER NOTES PURSUANT TO BURSA MALAYSIA'S MAIN MARKET LISTING REQUIREMENTS: CHAPTER 9, APPENDIX 9B, PART A

B1. Review of performance

The Integrated Manufacturing Services ("IMS") segment comprises the following divisions:

i) precision machining, stamping and tooling ("PMST"); and
ii) automotive components design and manufacturing ("Automotive").

The Resources segment is principally involved in the harvesting and selling of fresh fruit bunches of oil palm ("FFB") whereas the Energy segment is principally involved in the exploration and production of oil and gas but has not commenced commercial production yet.

The Group's revenue decreased from RM60.7 million for the preceding year corresponding quarter to RM49.1 million for the current quarter. This was due to a decline in revenue of RM11.4 million and RM0.2 million, registered by the IMS and Resources segment respectively. All the divisions within the IMS segment registered a decline in their revenue due to lower demand. The Resources segment registered a slight decline in its revenue due to a decrease in FFB production.

In tandem with the decline in revenue and higher depreciation (arising from the completion of the construction of the second factory building of the Precision Machining and Automation ("PMA") division (a sub-division of the PMST division) at the beginning of the current financial year, the net profit of the Group decreased from RM2.7 million in the preceding year corresponding quarter to RM1.7 million in the current quarter. Despite the decline in revenue of about 19%, the IMS segment's net profit was quite constant at RM2.7 million due mainly to better cost management and product mix. The Resources segment recorded a decrease in its net loss from RM0.2 million for the preceding year corresponding quarter to RM69,000 for the current quarter due mainly to improved margins as a result of an increase in FFB prices and fair value gain on biological assets.

The Group recorded a net cash inflow of RM18.9 million for the current period versus a net cash outflow of RM11.3 million for the preceding year corresponding period. This was achieved with higher operating cash inflows of RM18.7 million for the current period as compared to RM2.5 million for the same period in the previous financial year, lower capital expenditure and exploration expenditure. The lower capital expenditure is mainly due to the completion of the construction of PMA division's second factory building at the beginning of the current financial year. The cash and cash equivalents of the Group as at period end stood at RM58.1 million (31 December 2019: RM45.5 million). Comparing quarter end with the end of previous financial year, the Group's net assets per share has increased from RM0.867 to RM0.88 whilst the gearing has increased marginally to 0.10 times from 0.09 times due mainly to the implementation of MFRS 16. Current ratio of the Group has remained the same at 1.61 times.

B2. Material changes from the preceding quarter

Comparing quarter on quarter, the Group's revenue decreased from RM53.0 million to RM49.1 million due to a decrease in IMS segment's revenue. The decrease in IMS segment's revenue of RM4.3 million, experienced by all the IMS divisions, was due mainly to lower demand. The Resources segment has registered an increase in the revenue of RM0.4 million was due to an increase in both the FFB production and FFB prices.

The Group's net profit decreased from RM2.0 million in the previous quarter to RM1.7 million for the current quarter due mainly to a decrease in the net profit from the IMS segment. The IMS segment recorded a decrease of RM0.9 million in its net profit from RM3.6 million in the previous quarter to RM2.7 million for the current quarter, in tandem with the decrease in its revenue and also due to additional fixed costs arising from the PMA division's newly constructed factory, of which capacity is gradually being utilised during the current quarter. In tandem with the increase in revenue and fair value gain on biological assets, the Resources segment registered a decrease of RM0.7 million in its net losses quarter on quarter to register a net loss of RM69,000 for the current quarter.

B3. Prospects

The PMA division's new factory facility of 60,000 square feet at Penang Science Park was completed and ready in the first quarter of the current financial year and the PMA division expects to gradually increase its capacity and revenue over time. With the expansion plans of the PMST division, the Group can expect increased positive growth to its revenue and bottom line in years to come.

The outbreak of COVID-19 however may affect the financial performance of the Group.

The Energy Segment, under NuEnergy Gas Limited ("NuEnergy"), has submitted the first coal bed methane ("CBM") Plan of Development ("POD I") for the Tanjung Enim Production Sharing Contract ("PSC") in Indonesia. The proposed POD I plans for the development of 209 wells in the identified areas of the Tanjung Enim PSC covering about 33km^2 (or 13% of the total Tanjung Enim PSC acreage). The Indonesia Research and Development Center for Oil and Gas Technology has confirmed and certified reserves totaling ~164.89 billion standard cubic feet (bscf) of gas. The proposed POD I is currently pending the approval from the Government of Indonesia.

Nevertheless, development and commercialisation of the gas reserves will take time before the Group can reap the returns from it.

B4. Financial Forecast and Profit Guarantee

Not applicable.

B5. Corporate proposals

Save as disclosed below, there were no material corporate proposals announced but not completed within 7 days from the date of issue of this report.

The Company had on 23 December 2019 announced that GFB Technology Sdn. Bhd., a wholly-owned subsidiary, had on 23 December 2019 entered into a Sales and Purchase Agreement with Marcilluslee @ Boy Bin Linus, for the acquisition of a parcel of land held under Country Lease Title No. 215499246 situated at Kg Nosoob, in the district of Penampang, State of Sabah for a total cash consideration of RM10 million, upon the terms and conditions as stipulated in the SPA ("Proposed Acquisition"). The Proposed Acquisition is pending completion as at the date of this report.

B6. Taxation

The tax expense for the current quarter and financial period are as follows:

	Current quarter 31.12.2019 RM'000	Financial period 31.12.2019 RM'000
Income tax expense		
Malaysia -current year	(1,256)	(729)
Overseas – current	308	780
	(948)	51
Deferred tax expense		
Malaysia - current year	1,610	1,588
Total tax expense	662	1,639

The effective tax rate of the Group for the current quarter and current period is higher than the statutory tax rate due mainly to the losses incurred by the Energy segment (which has yet to commence commercial production) and the Resources and Investment Holding segments.

B7. Status of memorandum of understandings

i) AutoV Corporation Sdn Bhd ("AutoV"), a subsidiary of the Company has on 28 July 2017 entered into a memorandum of understanding for strategic alliance with Ningbo Auto Components Industry Association ("Ningbo AIA") which records the principal and mutual understanding whereby Ningbo AIA shall assist to develop and secure business collaborations between its members and AutoV group of companies. Discussions are still ongoing as at the date of this report.

ii) NuEnergy had as at end September 2017 executed a Memorandum of Understanding with PT Pertamina Gas ("Pertagas") in September 2017 to explore the gas supply from the Tanjung Enim PSC. NuEnergy is currently in an on-going discussion with Pertagas to finalise the mechanism on gas delivery and subsequently progress to negotiate the commercial terms of gas sale and supply.

B8. Borrowings

The Group's borrowings as at 31 December 2019 were all secured. The borrowings denominated in foreign currency and RM as at 31 December 2019 was as follows:

	RM'000
Foreign Currency:	
- IDR1,220,303,358@ RM0.0295/IDR100	360
RM	22,823
Total Group Borrowings	23,183

Foreign currency:

IDR Indonesian Rupiah

B9. Material litigation

There is no material litigation as at the date of this report.

B10. Earnings per share

Basic earnings per share

The basic earnings per share of the Group for the current quarter and current period was computed as follows:

	Current quarter	Current period
Profit attributable to owners of the Company (RM'000)	1,746	3,745
Weighted average number of ordinary shares ('000)	269,087	269,087
Basic earnings per share (sen)	0.649	1.392

Diluted earnings per share

Diluted earnings per share for the current quarter and financial period are not applicable as the exercise price of the Company's warrants of RM0.72 is higher than the market price of the Company's shares as at period end.

B11. Exploration and development expenditure/activities

Below is a table showing the exploration assets/expenditure incurred during the period.

	RM'000
Carrying amount	
At 1 July 2019	99,339
Effect of movements in exchange rates	(767)
Additions	1,020
At 31 December 2019	99,592

The Energy segment continued with its engagement with the Government of Indonesia to secure approval of the Tanjung Enim Gross Split PSC and POD I. This included a field visit (at the request of the Ministry of Energy and Mineral Resources ("MEMR")) by the Director General of Oil and Gas and representatives from Lemigas, Geology Department and the MEMR to the Tanjung Enim site from 18 December 2019 to 19 December 2019. The visit was made to all the wells, namely TE-10, TE-11, TE-12, TE-13 and TE-14.

The Energy segment also submitted, in respect of the Muara Enim PSC, a proposal for additional exploration period to continue the exploration activities beyond the 10th Contract Year which ended on 29 November 2019 to the MEMR through the Indonesian Special Task Force for Upstream Oil and Gas Business Activities ("SKK Migas"). The Energy segment has in early February 2020 been granted an additional exploration period by MEMR through SKK Migas to continue the exploration activities beyond the 10th Contract Year from 30 November 2019 to 19 January 2021.

B12. Notes to the statement of profit or loss and other comprehensive income

Other than interest income and finance costs, included in the statement of profit or loss and other comprehensive income are the following credits/(charges):

	Current quarter 31.12.2019 RM'000	Preceding year corresponding quarter 31.12.2018 RM'000	Current period 31.12.2019 RM'000	Preceding year corresponding period 31.12.2018 RM'000
Amortisation of customer relationships	(99)	(99)	(197)	(197)
Amortisation of development costs	-	(10)	-	(25)
Changes in fair value of other investments	6	-	(2)	(10)
Depreciation	(3,206)	(2,564)	(5,786)	(4,996)
Fair value changes on biological assets	228	(53)	95	(113)
Foreign exchange loss	(428)	(929)	(236)	(885)
Gain on disposal of property plant and equipment	127	73	137	86
Loss on disposal of other investment	-	(20)	-	(20)
Provision for warranties (net)	(42)	(58)	(87)	(369)
Rental income	3	3	6	6