

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2017**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 January 2017.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 JANUARY 2017**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/01/2017) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2016) RM'000	CURRENT YEAR-TO-DATE (31/01/2017) RM'000	PRECEDING YEAR CORRESPONDING YEAR-TO-DATE (31/01/2016) RM'000
Revenue	83,115	70,259	163,227	140,438
Other items of income				
Interest income	665	549	1,302	992
Dividend income	18	40	36	58
Other income	259	479	608	1,456
Items of expense				
Raw materials and consumables used	(10,001)	(9,002)	(17,117)	(17,075)
Changes in work-in-progress and finished goods	817	469	641	353
Employee benefits expense *	(27,557)	(23,930)	(56,917)	(47,381)
Depreciation of property, plant and equipment	(16,012)	(13,446)	(30,668)	(27,711)
Finance costs	(540)	(793)	(994)	(1,692)
Other expenses *	(19,162)	(16,816)	(37,344)	(31,790)
Profit before tax	11,602	7,809	22,774	17,648
Income tax expense	(1,627)	(810)	(2,787)	(2,583)
Profit net of tax	9,975	6,999	19,987	15,065
Other comprehensive income:				
Foreign currency translation	1,002	(3,507)	2,290	942
Other comprehensive income for the period, net of tax	1,002	(3,507)	2,290	942
Total comprehensive income for the period	10,977	3,492	22,277	16,007
Profit attributable to:				
Owners of the Company	9,975	6,999	19,987	15,065
Total comprehensive income attributable to:				
Owners of the Company	10,977	3,492	22,277	16,007
Earnings per share attributable to owners of the Company (sen per share):				
- Basic	23.2	16.3	46.5	35.0

* Comparative figures have been restated to conform with current year's presentation.

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2017

	AS AT END OF CURRENT QUARTER 31/01/2017	AS AT PRECEDING FINANCIAL YEAR END 31/07/2016
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	196,806	169,770
Deferred tax assets	602	602
	<u>197,408</u>	<u>170,372</u>
Current assets		
Inventories	8,540	8,527
Trade and other receivables	78,402	70,421
Prepayments	6,376	5,452
Investment securities	3,901	4,184
Cash and short-term deposits	114,572	112,748
	<u>211,791</u>	<u>201,332</u>
Total assets	<u>409,199</u>	<u>371,704</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,015
Other reserves	19,690	18,063
Retained earnings	244,337	225,640
Total equity	<u>307,705</u>	<u>286,718</u>
Non-current liabilities		
Obligations under finance leases	1,778	1,874
Term loans	14,656	8,000
	<u>16,434</u>	<u>9,874</u>
Current liabilities		
Trade and other payables	50,190	45,230
Obligations under finance leases	2,339	1,483
Term loans	31,201	28,012
Income tax payable	1,330	387
	<u>85,060</u>	<u>75,112</u>
Total liabilities	<u>101,494</u>	<u>84,986</u>
Total equity and liabilities	<u>409,199</u>	<u>371,704</u>
Net assets per share attributable to owners of the Company (RM)	<u>7.15</u>	<u>6.67</u>

The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 JANUARY 2017**

FY2017	< ----- Attributable to owners of the Company ----- >						Total equity
	< ----- Non-distributable ----- >					Distributable	
	Share capital	Share premium	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 August 2016	43,015	663	10,531	4,629	2,240	225,640	286,718
Total comprehensive income	-	-	2,290	-	-	19,987	22,277
Transaction with owners							
Upon abolition of par value *	663	(663)	-	-	-	-	-
Dividends	-	-	-	-	-	(1,290)	(1,290)
At 31 January 2017	43,678	-	12,821	4,629	2,240	244,337	307,705

FY2016	< ----- Attributable to owners of the Company ----- >						Total equity
	< ----- Non-distributable ----- >					Distributable	
	Share capital	Share premium	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 August 2015	43,015	663	11,736	3,879	2,240	198,933	260,466
Total comprehensive income	-	-	942	-	-	15,065	16,007
Transaction with owners							
Transfer to statutory reserve fund	-	-	-	750	-	(750)	-
Dividends	-	-	-	-	-	(1,290)	(1,290)
At 31 January 2016	43,015	663	12,678	4,629	2,240	211,958	275,183

* On 31 January 2017, in accordance with the Companies Act 2016, the concepts of "par value" and "authorised capital" were abolished and on that date, the shares of the Company ceased to have a par value. Consequently, the amounts standing in the share premium had become part of the Company's share capital.

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 JANUARY 2017

	Current year-to-date 31/01/2017 RM'000	Preceding year corresponding year-to-date 31/01/2016 RM'000
OPERATING ACTIVITIES		
Profit before tax	22,774	17,648
Adjustments for:		
Depreciation of property, plant and equipment	30,668	27,711
Plant and equipment written off	5	27
Gain on disposal of property, plant and equipment	(236)	(65)
(Write-back)/write-down of inventories	(104)	283
Gain on disposal of investment securities held for trading	(47)	-
Net fair value loss/(gain) on investment securities held for trading	106	(61)
Unrealised exchange (gain)/loss	(96)	1,453
Dividend income	(36)	(58)
Interest income	(1,302)	(992)
Finance costs	994	1,692
Operating cash flows before working capital changes	52,726	47,638
Decrease/(increase) in inventories	91	(799)
Increase in prepayments, trade and other receivables	(8,809)	(4,298)
Decrease in trade and other payables	(8,006)	(4,092)
Cash flows generated from operations	36,002	38,449
Income taxes paid	(1,841)	(883)
Interest paid	(994)	(1,692)
Interest received	1,302	992
Net cash flows generated from operating activities	34,469	36,866
INVESTING ACTIVITIES		
Purchase of investment securities	(662)	-
Proceeds from disposal of investment securities	886	-
Dividend income	36	58
Purchase of property, plant and equipment	(42,285)	(4,730)
Proceeds from disposal of property, plant and equipment	757	65
Net cash flows used in investing activities	(41,268)	(4,607)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,035)	(507)
Repayment of term loans	(14,022)	(21,745)
Proceeds from term loans	23,867	3,067
Dividends paid on ordinary shares	(1,290)	(1,290)
Net cash flows generated from/(used in) financing activities	7,520	(20,475)
Net increase in cash and cash equivalents	721	11,784
Effects of exchange rate changes	1,103	124
Cash and cash equivalents at beginning of year	112,748	93,924
Cash and cash equivalents at end of period	114,572	105,832

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2016 and the accompanying explanatory notes attached to the interim financial statements.

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The interim financial statements are unaudited and have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRS”) 134: “Interim Financial Reporting” issued by the Malaysian Accounting Standards Board, International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” and paragraph 9.22 and Part A of Appendix 9B of the Bursa Malaysia Securities Berhad’s Main Market Listing Requirements. The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 July 2016. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 July 2016.

2. Significant accounting policies

The significant accounting policies and methods of computation adopted by the Group in the interim financial statements are consistent with those of the audited financial statements for the year ended 31 July 2016.

In the current financial period, the Group had adopted all the new/revised standards and interpretations that are effective for annual periods beginning on or after 1 August 2016. The adoption of these standards and interpretations did not have any material effect on the financial performance or position of the Group.

3. Audit report of preceding annual financial statements

The audit report of the Group’s most recent audited financial statements for the year ended 31 July 2016 was not qualified.

4. Seasonality or cyclicity of operations

There was no material seasonal or cyclical fluctuation in the operations of the Group.

5. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidence

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the reporting period.

6. Changes in estimates of amounts reported in prior interim periods of the current financial year or in prior financial years

There were no changes in estimates of amounts reported in prior financial years.

7. Issues, repurchases, and repayments of debt and equity securities

There were no issues, repurchases and repayments of debt and equity securities for the current financial period-to-date.

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8. Dividends paid

A final tax exempt dividend of 3 sen per ordinary share, amounting to RM1,290,000, in respect of the previous financial year ended 31 July 2016, was paid on 26 January 2017.

9. Events not reflected in the financial statements

There were no material subsequent events to be disclosed as at the date of this report.

10. Changes in the composition of the Group

There were no changes in the composition of the Group for the financial year to date.

11. Acquisition or disposal of items of property, plant and equipment

During the reporting period, the Group acquired plant and equipment amounting to RM57,046,000, and disposed (including write-off) plant and equipment of net book value amounting to RM526,000.

12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/01/2017</u>	<u>31/01/2016</u>
	RM'000	RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by holding company	3,818	3,557
Dividends paid to holding company	625	625
Rendering of services to related companies	25	-
Purchases of equipment from related companies	1,250	-
Purchases of goods from related companies	134	96
Receiving of services from related companies	27	21

The Directors are of the opinion that the above transactions were in the normal course of business and at terms mutually agreed between the companies.

13. Significant commitments for purchase of property, plant and equipment

Commitments for purchase of property, plant and equipment amounted to RM19,510,000 as at 31 January 2017.

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14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceeding year corresponding quarter	Current year to date	Preceeding year corresponding period
	31/01/2017	31/01/2016	31/01/2017	31/01/2016
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	-	283	-	283
Plant and equipment written off	2	13	5	27
Net fair value loss on investment securities held for trading	330	-	106	-
Net foreign exchange loss	-	1,176	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
And crediting:				
Write-back of inventories	104	-	104	-
Gain on disposal of property, plant and equipment	118	-	236	65
Gain on disposal of investment securities held for trading	-	-	47	-
Net fair value gain on investment securities held for trading	-	163	-	61
Net foreign exchange gain	30	-	207	960
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There was no gain or loss arising from derivatives, disposal of unquoted investments and exceptional items.

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15. Detailed analysis of Group performance

Analysis of the performance for the current quarter

The Group's revenue increased by RM12.9 million or 18%, from RM70.3 million in the preceding year's second quarter to RM83.1 million for the current quarter ended 31 January 2017 ("2QFY2017"), mainly due to higher demand for burn-in and test services.

Employee benefits expense increased by RM3.6 million or 15%, mainly due to adjustments of wage rates and higher staff compensation to support the increased revenue.

Depreciation was higher by RM2.6 million or 19%, as additional machinery and test equipment were purchased during the financial year.

Other expenses were higher by RM2.3 million or 14%, mainly due to higher expenses on repair and maintenance by RM2.2 million.

Consequently, the Group's profit before tax improved by RM3.8 million or 49%, from RM7.8 million to RM11.6 million in 2QFY2017.

Analysis of the performance for the current financial year-to-date

The Group's revenue increased by RM22.8 million or 16%, from RM140.4 million in the preceding year's corresponding period to RM163.2 million for the current financial period ended 31 January 2017, as a result of higher demand for burn-in and test services.

Employee benefits expense increased by RM9.5 million or 20%, mainly due to adjustments of wage rates and higher staff compensation to support the increased revenue, improved staff welfare, training and skills upgrading to raise productivity and production efficiency.

Depreciation was higher by RM3.0 million or 11%, as additional machinery and test equipment were purchased during the year.

Other expenses were higher by RM5.6 million or 17%, mainly due to higher expenses on repair and maintenance by RM3.3 million and utilities by RM1.2 million to support the increased revenue, and higher professional fees by RM0.6 million.

Consequently, the Group's profit before tax improved by RM5.1 million or 29%, from RM17.6 million to RM22.8 million in the reporting period under review.

16. Material change in the profit before taxation compared to the results of the preceding quarter

The Group achieved profit before tax of RM11.6 million for 2QFY2017, comparable to RM11.2 million in the preceding quarter ended 31 October 2016.

17. Prospects

The world-wide semiconductor revenue is estimated to reach USD339.7 billion for 2016, representing an overall improvement of 1.5% from 2015, on the back of continued inventory replenishment and improved demand and pricing. A growth of 7.2% is expected in 2017, with world-wide semiconductor revenue totaling USD364.1 billion.

The world-wide automotive integrated circuit market remains strong. Revenue is forecasted to grow at 7%, from USD21.5 billion in 2016 to USD23.0 billion in 2017.

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Given the healthy industry forecasts and our strategic interests in the automotive integrated circuit market, the Group looks forward to its continuing growth.

18. Profit forecast/profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/01/2017 RM'000	Preceding year corresponding quarter 31/01/2016 RM'000	Current year to date 31/01/2017 RM'000	Preceding year corresponding quarter 31/01/2016 RM'000
Current income tax				
- Malaysian income tax	1,632	810	3,024	2,583
- Over provision in prior years	(5)	-	(237)	-
	<u>1,627</u>	<u>810</u>	<u>2,787</u>	<u>2,583</u>

The effective tax rate was lower than the statutory tax rate, mainly due to the availability of certain tax benefits.

20. Status of uncompleted corporate proposals

There was no corporate proposal announced and not completed as at the date of this report.

21. Group borrowings and debt securities

	As at 31/01/2017 RM'000	As at 31/07/2016 RM'000
(a) Obligations under finance leases - secured	4,117	3,357
Term loans *	<u>45,857</u>	<u>36,012</u>
	<u>49,974</u>	<u>39,369</u>
(b) Repayable within 12 months	33,540	29,495
Repayable after 12 months	<u>16,434</u>	<u>9,874</u>
	<u>49,974</u>	<u>39,369</u>
(c) Total loans and borrowings denominated in:		
Renminbi	1,867	-
Ringgit Malaysia	<u>48,107</u>	<u>39,369</u>
	<u>49,974</u>	<u>39,369</u>

* included in the term loans was a secured loan of RM1,867,000.

22. Material litigation

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There was no material litigation as at the date of this announcement.

23. Dividend

There was no dividend declared for the quarter under review.

24. Earnings per share

Basic earnings per ordinary share

The calculation of basic earnings per share for the period was based on the profit attributable to owners of the Company of RM9,975,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

25. Realised and unrealised profits

	As at end of current quarter 31/01/2017	As at preceding financial year end 31/07/2016
	RM'000	RM'000
- Realised	278,165	260,337
- Unrealised	2,171	(195)
Total retained profits of the Company and its subsidiaries	280,336	260,142
Consolidation adjustments	(35,999)	(34,502)
Total group retained profits as per consolidated accounts	244,337	225,640

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 9 March 2017

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		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
		(31/01/2017) RM000	(31/01/2016) RM000	(31/01/2017) RM000	(31/01/2016) RM000
1	Revenue	83,115	70,259	163,227	140,438
2	Profit before tax	11,602	7,809	22,774	17,648
3	Profit for the period	9,975	6,999	19,987	15,065
4	Profit attributable to ordinary equity holders of the Company	9,975	6,999	19,987	15,065
5	Basic earnings per share (sen)	23.20	16.3	46.5	35.0
6	Proposed/Declared dividend per share (sen)	-	-	-	-
		AS AT END OF CURRENT QUARTER		AS AT PRECEDING FINANCIAL YEAR END	
7	Net assets per share attributable to ordinary equity holders of the Company (RM)	7.1534		6.6655	

ADDITIONAL INFORMATION

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
		(31/01/2017) RM000	(31/01/2016) RM000	(31/01/2017) RM000	(31/01/2016) RM000
1	Gross interest income	665	549	1,302	992
2	Gross interest expense	540	793	994	1,692