

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2017**

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

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

| | Individual period | | | Cumulative period | | |
|---|---|--|-------------|---|---|-------------|
| | Current year quarter (31/10/2017) RM'000 | Preceding year corresponding quarter (31/10/2016) RM'000 | % Change | Current year to date (31/10/2017) RM'000 | Preceding year corresponding year to date (31/10/2016) RM'000 | % Change |
| Revenue | 90,711 | 80,112 | 13% | 90,711 | 80,112 | 13% |
| Other items of income | | | | | | |
| Interest income | 671 | 637 | 5% | 671 | 637 | 5% |
| Dividend income | 27 | 18 | 50% | 27 | 18 | 50% |
| Other income | 1,359 | 573 | NM | 1,359 | 573 | NM |
| Items of expense | | | | | | |
| Raw materials and consumables used | (8,037) | (7,116) | 13% | (8,037) | (7,116) | 13% |
| Changes in work-in-progress and finished goods | 95 | (176) | NM | 95 | (176) | NM |
| Employee benefits expense | (30,326) | (29,360) | 3% | (30,326) | (29,360) | 3% |
| Depreciation of property, plant and equipment | (19,286) | (14,656) | 32% | (19,286) | (14,656) | 32% |
| Finance costs | (837) | (454) | 84% | (837) | (454) | 84% |
| Other expenses | (20,923) | (18,406) | 14% | (20,923) | (18,406) | 14% |
| Profit before tax | 13,454 | 11,172 | 20% | 13,454 | 11,172 | 20% |
| Income tax expense | (2,079) | (1,160) | 79% | (2,079) | (1,160) | 79% |
| Profit net of tax | 11,375 | 10,012 | 14% | 11,375 | 10,012 | 14% |
| Other comprehensive income: | | | | | | |
| Item to be reclassified subsequently to profit or loss | | | | | | |
| Foreign currency translation (loss)/gain | (18) | 1,288 | NM | (18) | 1,288 | NM |
| Total comprehensive income for the period | 11,357 | 11,300 | 1% | 11,357 | 11,300 | 1% |
| Earnings per share attributable to owners of the Company (sen): | | | | | | |
| - Basic | 26.4 | 23.3 | 13% | 26.4 | 23.3 | 13% |

NM – percentage change not meaningful

The condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2017 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2017

| | <u>As at end of current quarter 31/10/2017</u> | <u>As at preceding financial year end 31/07/2017</u> |
|--|--|--|
| | <u>RM'000</u> | <u>RM'000</u> |
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 237,357 | 242,873 |
| Deferred tax assets | 734 | 786 |
| | <u>238,091</u> | <u>243,659</u> |
| Current assets | | |
| Inventories | 7,867 | 7,151 |
| Trade and other receivables | 81,925 | 82,680 |
| Prepayments | 7,117 | 6,718 |
| Tax recoverable | 290 | 437 |
| Investment securities held for trading | 8,863 | 8,046 |
| Cash and short-term deposits | 128,868 | 127,576 |
| | <u>234,930</u> | <u>232,608</u> |
| Total assets | <u>473,021</u> | <u>476,267</u> |
| EQUITY AND LIABILITIES | | |
| Equity attributable to owners of the Company | | |
| Share capital | 43,678 | 43,678 |
| Other reserves | 19,939 | 19,957 |
| Retained earnings | 276,879 | 265,504 |
| Total equity | <u>340,496</u> | <u>329,139</u> |
| Non-current liabilities | | |
| Obligations under finance leases | 1,342 | 2,102 |
| Bank loans | 40,400 | 35,502 |
| Defined benefit obligations | 3,126 | 3,038 |
| | <u>44,868</u> | <u>40,642</u> |
| Current liabilities | | |
| Trade and other payables | 53,216 | 74,586 |
| Obligations under finance leases | 3,761 | 3,983 |
| Bank loans | 30,194 | 27,892 |
| Income tax payable | 486 | 25 |
| | <u>87,657</u> | <u>106,486</u> |
| Total liabilities | <u>132,525</u> | <u>147,128</u> |
| Total equity and liabilities | <u>473,021</u> | <u>476,267</u> |
| Net assets per share attributable to owners of the Company (RM) | <u>7.92</u> | <u>7.65</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 2017 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 OCTOBER 2017**

| | < ----- Attributable to owners of the Company ----- > | | | | | | Total equity |
|---|---|--------------------------------------|------------------------|-----------------|-------------------|---------------|---------------|
| | < ----- Non-distributable ----- > | | | | | Distributable | |
| | Share capital | Foreign currency translation reserve | Statutory reserve fund | Capital reserve | Retained earnings | | |
| FY2018 | | | | | | | |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| At 1 August 2017 | 43,678 | 13,088 | 4,629 | 2,240 | 265,504 | 329,139 | |
| Profit for the period | - | - | - | - | 11,375 | 11,375 | |
| Other comprehensive income for the period | - | (18) | - | - | - | (18) | |
| At 31 October 2017 | 43,678 | 13,070 | 4,629 | 2,240 | 276,879 | 340,496 | |

| | < ----- 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 | | |
| FY2017 | | | | | | | | |
| | 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 | |
| Profit for the period | - | - | - | - | - | 10,012 | 10,012 | |
| Other comprehensive income for the period | - | - | 1,288 | - | - | - | 1,288 | |
| At 31 October 2016 | 43,015 | 663 | 11,819 | 4,629 | 2,240 | 235,652 | 298,018 | |

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 2017 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 OCTOBER 2017

| | Current year to date 31/10/2017 RM'000 | Preceding year corresponding year to date 31/10/2016 RM'000 |
|--|---|--|
| OPERATING ACTIVITIES | | |
| Profit before tax | 13,454 | 11,172 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 19,286 | 14,656 |
| Plant and equipment written off | - | 3 |
| Gain on disposal of property, plant and equipment | - | (118) |
| Write-down of inventories | 33 | - |
| Gain on disposal of investment securities held for trading | - | (47) |
| Net fair value gain on investment securities held for trading | (585) | (224) |
| Unrealised exchange gain | (55) | (173) |
| Dividend income | (27) | (18) |
| Interest income | (671) | (637) |
| Finance costs | 837 | 454 |
| Operating cash flows before working capital changes | 32,272 | 25,068 |
| Increase in inventories | (749) | (1,048) |
| Decrease/(increase) in prepayments and receivables | 301 | (6,766) |
| Decrease in payables | (26,344) | (986) |
| Cash flows generated from operations | 5,480 | 16,268 |
| Income taxes paid | (1,419) | (1,014) |
| Interest paid | (837) | (454) |
| Interest received | 671 | 637 |
| Net cash flows generated from operating activities | 3,895 | 15,437 |
| INVESTING ACTIVITIES | | |
| Decrease in short-term deposits with maturity more than three months | 4,606 | - |
| Purchase of investment securities held for trading | (232) | (495) |
| Proceeds from disposal of investment securities held for trading | - | 886 |
| Dividend income | 27 | 18 |
| Purchase of property, plant and equipment | (5,816) | (16,641) |
| Proceeds from disposal of property, plant and equipment | - | 631 |
| Net cash flows used in investing activities | (1,415) | (15,601) |
| FINANCING ACTIVITIES | | |
| Repayment of obligations under finance leases | (982) | (482) |
| Repayment of bank loans | (11,209) | (7,011) |
| Proceeds from bank loans | 18,410 | - |
| Dividend paid on ordinary shares | (2,796) | (1,936) |
| Net cash flows generated from/(used in) financing activities | 3,423 | (9,429) |
| Net increase/(decrease) in cash and cash equivalents | 5,903 | (9,593) |
| Effects of exchange rate changes | (5) | 624 |
| Cash and cash equivalents at beginning of the year | 81,441 | 112,748 |
| Cash and cash equivalents at end of the period | 87,339 | 103,779 |

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Cash and cash equivalents comprised the following:

| | Current year to date 31/10/2017 RM'000 | Preceding year corresponding year to date 31/10/2016 RM'000 |
|--|---|--|
| Cash at banks | 34,530 | 23,877 |
| Deposits with licensed banks | 94,338 | 79,902 |
| Cash and short-term deposits | 128,868 | 103,779 |
| Less: Short-term deposits with maturity more than three months | (41,529) | - |
| Cash and cash equivalents | 87,339 | 103,779 |

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2017 and the accompanying explanatory notes attached to the interim financial statements.

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 2017. 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 2017.

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 2017.

In the current reporting period, the Group had adopted all the new/revised standards and interpretations that are effective for annual periods beginning on or after 1 August 2017. 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 preceding annual financial statements 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 reporting period.

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8. Dividends

No dividend was declared during the current reporting period or preceding year corresponding quarter.

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 current reporting period.

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

During the current financial year, the Group acquired plant and equipment amounting to RM13,763,000.

12. Significant related party transactions

| | <u>Current year to date</u> | <u>Preceding year corresponding year to date</u> |
|---|---------------------------------|--|
| | <u>31/10/2017</u> | <u>31/10/2016</u> |
| | <u>RM'000</u> | <u>RM'000</u> |
| Transactions with Sunright Limited, holding company of the Company, and its subsidiaries: | | |
| Management fees charged by holding company | 2,982 | 1,906 |
| Rendering of services to related companies | - | 25 |
| Purchases of equipment and consumables from related companies | 336 | 775 |
| Receiving of services from related companies | <u>-</u> | <u>18</u> |

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 purchases of property, plant and equipment amounted to RM11,938,000 as at 31 October 2017.

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14. Profit before tax

| | Individual period | | Cumulative period | |
|---|--|--|--|---|
| | Current year quarter 31/10/2017 RM'000 | Preceding year corresponding quarter 31/10/2016 RM'000 | Current year to date 31/10/2017 RM'000 | Preceding year corresponding year to date 31/10/2016 RM'000 |
| Profit before tax is arrived at: | | | | |
| After charging: | | | | |
| Write-down of inventories | 33 | - | 33 | - |
| Plant and equipment written off | - | 3 | - | 3 |
| And crediting: | | | | |
| Gain on disposal of property, plant and equipment | - | 118 | - | 118 |
| Gain on disposal of investment securities held for trading | - | 47 | - | 47 |
| Net fair value gain on investment securities held for trading | 585 | 224 | 585 | 224 |
| Net foreign exchange gain | 93 | 177 | 93 | 177 |

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

15. Segment information

No segment reporting has been prepared as the Group has only one operating segment, burn-in, testing and electronic manufacturing services.

16. Detailed analysis of Group performance

Analysis of the performance

The Group's revenue increased by RM10.6 million or 13%, from RM80.1 million in the preceding year's first quarter, to RM90.7 million for the current quarter ended 31 October 2017 ("1QFY2018"), mainly due to higher demand for burn-in and testing services.

Depreciation was higher by RM4.6 million or 32%, due to purchases of machinery and test equipment to support higher volume.

Other expenses were higher by RM2.5 million or 14%, mainly due to increases in repairs and maintenance expenses of RM1.2 million and management fees of RM1.1 million.

Consequently, the Group's profit before tax improved by RM2.3 million or 20%, from RM11.2 million to RM13.5 million in 1QFY2018.

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Analysis of financial position

Property, plant and equipment ("PPE") was lower by 2% or RM5.5 million, from RM242.9 million as at 31 July 2017 to RM237.4 million as at 31 October 2017. The decrease in PPE was primarily due to depreciation charge of RM19.3 million, offset by capital expenditure of RM13.8 million.

Trade and other payables reduced by 29% or RM21.4 million, from RM74.6 million to RM53.2 million, largely because of settlement of payables due for purchases of machinery and test equipment.

The Group's loans and borrowings increased by 9% or RM6.2 million, from RM69.5 million to RM75.7 million, as a result of additional borrowings to fund the capital expenditure.

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

The Group achieved profit before tax of RM13.5 million for 1QFY2018, comparable to RM12.8 million in the preceding quarter ended 31 July 2017.

18. Prospects

The world-wide semiconductor revenue is estimated to reach USD411.1 billion in 2017, representing an upward revision of 19.7% growth from 2016, driven by improvements in the memory segment.

Similarly, the global economy growth has been revised upwards to 3.6% in 2017 from the previous forecast of 3.5%.

Given the positive outlook, the Group expects to benefit from a continuing strong market performance.

19. Financial estimate, forecast or projection, or profit guarantee

The Group did not issue financial estimate, forecast or projection, or profit guarantee previously in any public document.

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20. Taxation

| | Individual Period | | Cumulative Period | |
|---|----------------------|--------------------------------------|----------------------|---|
| | Current year quarter | Preceding year corresponding quarter | Current year to date | Preceding year corresponding year to date |
| | 31/10/2017 | 31/10/2016 | 31/10/2017 | 31/10/2016 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current income tax | | | | |
| - Malaysian income tax | 2,027 | 1,392 | 2,027 | 1,392 |
| - Over provision in prior years | - | (232) | - | (232) |
| | <u>2,027</u> | <u>1,160</u> | <u>2,027</u> | <u>1,160</u> |
| Deferred tax | | | | |
| - Relating to origination and reversal of temporary differences | 52 | - | 52 | - |
| | <u>2,079</u> | <u>1,160</u> | <u>2,079</u> | <u>1,160</u> |

The effective tax rate for the current quarter were lower than the statutory tax rate, mainly due to the availability of certain tax benefits, such as business losses and reinvestment allowance.

21. Status of uncompleted corporate proposals

The Company has proposed to seek the approval of the shareholders for the Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a revenue or trading nature ("Proposed Renewal of Shareholders' Mandate") at the Extraordinary General Meeting to be convened immediately following the conclusion of the Company's Annual General Meeting to be held on 11 January 2018. A circular which set out the details of the Proposed Renewal Shareholders' Mandate had been issued to shareholders of the Company on 26 October 2017.

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22. Group borrowings and debt securities

| | <u>As at</u> <u>31/10/2017</u> <u>RM'000</u> | <u>As at</u> <u>31/07/2017</u> <u>RM'000</u> |
|--|--|--|
| (a) Obligations under finance leases - secured | 5,103 | 6,085 |
| Bank loans * | 70,594 | 63,394 |
| | <u>75,697</u> | <u>69,479</u> |
| (b) Repayable within 12 months | 33,955 | 31,875 |
| Repayable after 12 months | 41,742 | 37,604 |
| | <u>75,697</u> | <u>69,479</u> |
| (c) Total loans and borrowings denominated in: | | |
| Renminbi ("RMB") | 8,646 | 5,026 |
| Ringgit Malaysia | 67,051 | 64,453 |
| | <u>75,697</u> | <u>69,479</u> |

* Included in the bank loans were secured term loans of RM8,646,000 (31/07/2017: RM5,026,000).

23. Material litigation

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

24. Earnings per share

Basic earnings per ordinary share amounts are calculated by dividing profit net of tax, attributable to owners of the Company of RM11,375,000 by the weighted average number of 43,014,500 ordinary shares outstanding during the current reporting period.

The Group has no potential ordinary shares in issue as at reporting date and therefore diluted earnings per share has not been presented.

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25. Realised and unrealised profits

| | As at end of current quarter 31/10/2017 | As at preceding financial year end 31/07/2017 |
|--|--|--|
| | RM'000 | RM'000 |
| - Realised | 308,550 | 298,202 |
| - Unrealised | 3,840 | 3,107 |
| Total retained profits of the Company and its subsidiaries | 312,390 | 301,309 |
| Consolidation adjustments | (35,511) | (35,805) |
| Total group retained profits as per consolidated accounts | 276,879 | 265,504 |

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 23 November 2017

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SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FIRST QUARTER ENDED 31 OCTOBER 2017

| | | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|----|---|--|--|--|---|
| | | CURRENT YEAR QUARTER (31/10/2017) RM'000 | PRECEDING YEAR CORRESPONDING QUARTER (31/10/2016) RM'000 | CURRENT YEAR TO DATE (31/10/2017) RM'000 | PRECEDING YEAR CORRESPONDING PERIOD (31/10/2016) RM'000 |
| 1. | Revenue | 90,711 | 80,112 | 90,711 | 80,112 |
| 2. | Profit before tax | 13,454 | 11,172 | 13,454 | 11,172 |
| 3. | Profit for the period | 11,375 | 10,012 | 11,375 | 10,012 |
| 4. | Profit attributable to ordinary equity holders of the Company | 11,375 | 10,012 | 11,375 | 10,012 |
| 5. | Basic earnings per share (sen) | 26.4 | 23.3 | 26.4 | 23.3 |
| 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) | 7.9158 | 7.6517 |

ADDITIONAL INFORMATION

| | | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|----|------------------------|--|--|--|---|
| | | CURRENT YEAR QUARTER (31/10/2017) RM'000 | PRECEDING YEAR CORRESPONDING QUARTER (31/10/2016) RM'000 | CURRENT YEAR TO DATE (31/10/2017) RM'000 | PRECEDING YEAR CORRESPONDING PERIOD (31/10/2016) RM'000 |
| 1. | Gross interest income | 671 | 637 | 671 | 637 |
| 2. | Gross interest expense | 837 | 454 | 837 | 454 |