

**KESM INDUSTRIES BERHAD**  
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS  
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2018**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 January 2018.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 JANUARY 2018**

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding quarter		to date	corresponding year to date	
	(31/01/2018)	(31/01/2017)		(31/01/2018)	(31/01/2017)	
	RM'000	RM'000		RM'000	RM'000	
<b>Revenue</b>	91,473	83,115	10%	182,184	163,227	12%
<b>Other items of income</b>						
Interest income	822	665	24%	1,493	1,302	15%
Dividend income	19	18	6%	46	36	28%
Other income	1,009	259	NM	2,368	608	NM
<b>Items of expense</b>						
Raw materials and consumables used	(9,147)	(10,001)	(9%)	(17,184)	(17,117)	0%
Changes in work-in-progress and finished goods	104	817	(87%)	199	641	(69%)
Employee benefits expense	(28,094)	(27,557)	2%	(58,420)	(56,917)	3%
Depreciation of property, plant and equipment	(19,561)	(16,012)	22%	(38,847)	(30,668)	27%
Finance costs	(991)	(540)	84%	(1,828)	(994)	84%
Other expenses	(22,612)	(19,162)	18%	(43,535)	(37,344)	17%
<b>Profit before tax</b>	<b>13,022</b>	<b>11,602</b>	<b>12%</b>	<b>26,476</b>	<b>22,774</b>	<b>16%</b>
Income tax expense	(1,845)	(1,627)	13%	(3,924)	(2,787)	41%
<b>Profit net of tax</b>	<b>11,177</b>	<b>9,975</b>	<b>12%</b>	<b>22,552</b>	<b>19,987</b>	<b>13%</b>
<b>Other comprehensive income:</b>						
<b>Item to be reclassified subsequently to profit or loss</b>						
Foreign currency translation (loss)/gain	(1,855)	1,002	NM	(1,873)	2,290	NM
<b>Total comprehensive income for the period</b>	<b>9,322</b>	<b>10,977</b>	<b>(15%)</b>	<b>20,679</b>	<b>22,277</b>	<b>(7%)</b>
Earnings per share attributable to owners of the Company (sen):						
- Basic	26.0	23.2	12%	52.4	46.5	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.

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2018**

	<u>As at end of current quarter 31/01/2018</u>	<u>As at preceding financial year end 31/07/2017</u>
	<u>RM'000</u>	<u>RM'000</u>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	236,602	242,873
Deferred tax assets	737	786
	<u>237,339</u>	<u>243,659</u>
<b>Current assets</b>		
Inventories	8,579	7,151
Trade and other receivables	81,212	82,680
Prepayments	8,635	6,718
Tax recoverable	564	437
Investment securities held for trading	9,196	8,046
Cash and short-term deposits	136,128	127,576
	<u>244,314</u>	<u>232,608</u>
<b>Total assets</b>	<u>481,653</u>	<u>476,267</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	43,678	43,678
Other reserves	18,084	19,957
Retained earnings	285,475	265,504
<b>Total equity</b>	<u>347,237</u>	<u>329,139</u>
<b>Non-current liabilities</b>		
Obligations under finance leases	874	2,102
Bank loans	44,132	35,502
Defined benefit obligations	3,213	3,038
	<u>48,219</u>	<u>40,642</u>
<b>Current liabilities</b>		
Trade and other payables	45,722	74,586
Obligations under finance leases	3,468	3,983
Bank loans	35,491	27,892
Income tax payable	1,516	25
	<u>86,197</u>	<u>106,486</u>
<b>Total liabilities</b>	<u>134,416</u>	<u>147,128</u>
<b>Total equity and liabilities</b>	<u>481,653</u>	<u>476,267</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.07</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 JANUARY 2018**

	< ----- Attributable to owners of the Company ----- >						Total equity
	< ----- Non-distributable ----- >					Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings		
<b>FY2018</b>							
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>At 1 August 2017</b>	43,678	13,088	4,629	2,240	265,504		329,139
Profit for the period	-	-	-	-	22,552		22,552
Other comprehensive income for the period	-	(1,873)	-	-	-		(1,873)
<b>Transaction with owners</b>							
Dividends	-	-	-	-	(2,581)		(2,581)
<b>At 31 January 2018</b>	43,678	11,215	4,629	2,240	285,475		347,237

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

\* On 31 January 2017, in accordance with the Companies Act 2016, the concepts of "par value" and "authorized 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 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 JANUARY 2018**

	<b>Current year to date 31/01/2018 RM'000</b>	<b>Preceding year corresponding year to date 31/01/2017 RM'000</b>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	26,476	22,774
Adjustments for:		
Depreciation of property, plant and equipment	38,847	30,668
Plant and equipment written off	-	5
Gain on disposal of property, plant and equipment	(68)	(236)
Write-down/(write-back) of inventories	76	(104)
Gain on disposal of investment securities held for trading	-	(47)
Net fair value (gain)/loss on investment securities held for trading	(606)	106
Unrealised exchange gain	(29)	(96)
Dividend income	(46)	(36)
Interest income	(1,493)	(1,302)
Finance costs	1,828	994
<b>Operating cash flows before working capital changes</b>	<b>64,985</b>	<b>52,726</b>
(Increase)/decrease in inventories	(1,504)	91
Increase in prepayments and receivables	(1,791)	(8,809)
Decrease in payables	(33,648)	(8,006)
<b>Cash flows generated from operations</b>	<b>28,042</b>	<b>36,002</b>
Income taxes paid	(2,511)	(1,841)
Interest paid	(1,828)	(994)
Interest received	1,493	1,302
<b>Net cash flows generated from operating activities</b>	<b>25,196</b>	<b>34,469</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in short-term deposits with maturity more than three months	18,606	-
Purchase of investment securities held for trading	(544)	(662)
Proceeds from disposal of investment securities held for trading	-	886
Dividend income	46	36
Purchase of property, plant and equipment	(27,667)	(42,285)
Proceeds from disposal of property, plant and equipment	68	757
<b>Net cash flows used in investing activities</b>	<b>(9,491)</b>	<b>(41,268)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of obligations under finance leases	(1,992)	(1,035)
Repayment of bank loans	(21,696)	(14,022)
Proceeds from bank loans	38,092	23,867
Dividend paid on ordinary shares	(2,796)	(1,290)
<b>Net cash flows generated from financing activities</b>	<b>11,608</b>	<b>7,520</b>
<b>Net increase in cash and cash equivalents</b>	<b>27,313</b>	<b>721</b>
Effects of exchange rate changes	(155)	1,103
Cash and cash equivalents at beginning of the year	81,441	112,748
<b>Cash and cash equivalents at end of the period</b>	<b>108,599</b>	<b>114,572</b>

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Cash and cash equivalents comprised the following:

	<b>Current year to date 31/01/2018 RM'000</b>	<b>Preceding year corresponding year to date 31/01/2017 RM'000</b>
Cash at banks	33,367	31,946
Deposits with licensed banks	102,761	82,626
Cash and short-term deposits	136,128	114,572
Less: Short-term deposits with maturity more than three months	(27,529)	-
Cash and cash equivalents	108,599	114,572

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”, requirements of the Companies Act 2016 in Malaysia 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 for the current financial year to date.

### **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 interim periods of the current financial year or 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 year to date.

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**8. Dividends**

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/01/2018</u>	<u>31/01/2017</u>
	<u>RM'000</u>	<u>RM'000</u>
<b>Recognised during the financial year to date</b>		
Final tax exempt dividend for 2017 at 6 sen (2016: 3 sen) per ordinary share, was paid on 13 February 2018	<u>2,581</u>	<u>1,290</u>

No dividend was declared for the quarter under review 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 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 RM33,296,000.

**12. Significant related party transactions**

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/01/2018</u>	<u>31/01/2017</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	6,378	3,818
Dividends paid to holding company	1,250	625
Rendering of services to related companies	-	25
Purchases of equipment and consumables from related companies	3,464	1,384
Receiving of services from related companies	<u>-</u>	<u>27</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.

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

Commitments for purchases of property, plant and equipment amounted to RM1,722,000 as at 31 January 2018.

**14. Profit before tax**

	Individual period		Cumulative period	
	Current year quarter 31/01/2018 RM'000	Preceding year corresponding quarter 31/01/2017 RM'000	Current year to date 31/01/2018 RM'000	Preceding year corresponding year to date 31/01/2017 RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	43	-	76	-
Plant and equipment written off	-	2	-	5
Net fair value loss on investment securities held for trading	-	330	-	106
And crediting:				
Write-back of inventories	-	104	-	104
Gain on disposal of property, plant and equipment	68	118	68	236
Gain on disposal of investment securities held for trading	-	-	-	47
Net fair value gain on investment securities held for trading	21	-	606	-
Net foreign exchange gain	149	30	242	207

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

**15. Derivative**

The Group does not have any derivative for the current quarter and financial year to date.

**16. Fair value changes of financial liabilities**

There was no gain or loss arising from fair value changes of the financial liabilities for the current quarter and financial year to date.

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**17. Segment information**

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

**18. Detailed analysis of Group performance**

Analysis of the performance for the current quarter

The Group's revenue increased by RM8.4 million or 10%, from RM83.1 million in the preceding year's second quarter, to RM91.5 million for the current quarter ended 31 January 2018 ("2QFY2018"), mainly due to higher demand for burn-in and testing services.

Depreciation was higher by RM3.5 million or 22% as additional machinery and test equipment were commissioned for use in the production.

Other expenses were higher by RM3.5 million or 18%, mainly due to increases in repairs and maintenance, and utilities expenses of RM1.0 million to support the increased revenue; management fees of RM1.5 million and stamp duties of RM0.2 million to secure additional loans.

Consequently, the Group's profit before tax improved by RM1.4 million or 12%, from RM11.6 million to RM13.0 million in 2QFY2018.

Analysis of the performance for the current financial year to date

The Group's revenue increased by RM19.0 million or 12%, from RM163.2 million in the preceding year's corresponding period to RM182.2 million for the current financial period ended 31 January 2018, as a result of higher demand for burn-in and testing services.

Depreciation was higher by RM8.2 million or 27% as additional machinery and test equipment were commissioned for use in production.

Other expenses were higher by RM6.2 million or 17%, mainly due to higher expenses of repairs and maintenance by RM1.6 million and utilities by RM1.3 million to support the increased revenue, and management fees of RM2.6 million.

The Group's profit before tax improve by RM3.7 million or 16%, from RM22.8 million to RM26.5 million in the reporting period under review.

Analysis of financial position

Property, plant and equipment ("PPE") was lower by 3% or RM6.3 million, from RM242.9 million as at 31 July 2017 to RM236.6 million as at 31 January 2018. The decrease in PPE was primarily due to depreciation charge of RM38.8 million, offset by capital expenditure of RM33.3 million.

The Group's cash and short-term deposits improved by 7% or RM8.6 million, from RM127.6 million to 136.1 million, which represented the net surplus cash generated from operations.

Trade and other payables reduced by 39% or RM28.9 million, from RM74.6 million to RM45.7 million, largely because of settlement of balances due for purchases of machinery and test equipment.

The Group's loans and borrowings increased by 21% or RM14.5 million, from RM69.5 million to RM84.0 million, as a result of additional borrowings to fund the capital expenditure.

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

The Group achieved profit before tax of RM13.0 million for 2QFY2018, comparable to RM13.5 million in the preceding quarter ended 31 October 2017.

**20. Prospects**

The world-wide semiconductor revenue is estimated to reach USD419 billion in 2017, representing an upward revision of 22.2% growth from 2016, on the back of a strong growth in the memory market. In 2018, revenue is projected to grow at 7.5%, to USD451 billion.

The global economy is estimated to improve to 3.9%, from 3.7% in 2017.

The Group is intensifying its efforts to improve production efficiencies in light of recent capacity expansion. This effort and the positive industry trend as well as the improving world economy will continue to drive our business forward.

**21. 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.

**22. Taxation**

	Individual Period		Cumulative Period	
	Current year quarter 31/01/2018	Preceding year corresponding quarter 31/01/2017	Current year to date 31/01/2018	Preceding year corresponding year to date 31/01/2017
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,848	1,632	3,875	3,024
- Over provision in prior years	-	(5)	-	(237)
	1,848	1,627	3,875	2,787
Deferred tax				
- Relating to origination and reversal of temporary differences	(3)	-	49	-
	1,845	1,627	3,924	2,787

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

**23. Status of uncompleted corporate proposals**

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

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**24. Group borrowings and debt securities**

	<u>As at</u> <u>31/01/2018</u> <u>RM'000</u>	<u>As at</u> <u>31/07/2017</u> <u>RM'000</u>
(a) Obligations under finance leases - secured	4,342	6,085
Bank loans *	79,623	63,394
	<u>83,965</u>	<u>69,479</u>
(b) Repayable within 12 months	38,959	31,875
Repayable after 12 months	45,006	37,604
	<u>83,965</u>	<u>69,479</u>
(c) Total loans and borrowings denominated in:		
Renminbi	7,524	5,026
Ringgit Malaysia	76,441	64,453
	<u>83,965</u>	<u>69,479</u>

\* Included in the bank loans were secured term loans of RM7,524,000 (31/07/2017: RM5,026,000).

**25. Material litigation**

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

**26. Earnings per share**

Basic earnings per ordinary share amounts are calculated by dividing profit net of tax, attributable to owners of the Company of RM11,177,000 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.

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 8 March 2018

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**SUMMARY OF KEY FINANCIAL INFORMATION**  
**FOR THE SECOND QUARTER ENDED 31 JANUARY 2018**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER (31/01/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2017) RM'000	CURRENT YEAR TO DATE (31/01/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2017) RM'000
1. Revenue	91,473	83,115	182,184	163,227
2. Profit before tax	13,022	11,602	26,476	22,774
3. Profit for the period	11,177	9,975	22,552	19,987
4. Profit attributable to ordinary equity holders of the Company	11,177	9,975	22,552	19,987
5. Basic earnings per share (sen)	26.0	23.2	52.4	46.5
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)	8.0726	7.6518

**ADDITIONAL INFORMATION**

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER (31/01/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2017) RM'000	CURRENT YEAR TO DATE (31/01/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2017) RM'000
1. Gross interest income	822	665	1,493	1,302
2. Gross interest expense	991	540	1,828	994