

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

Company No : 13022-A

**UNAUDITED THIRD QUARTERLY REPORT ON CONSOLIDATED RESULTS  
FOR THE FINANCIAL QUARTER ENDED 30 APRIL 2018**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 30 April 2018.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 30 APRIL 2018**

	Individual period			Cumulative period		
	Current year quarter (30/04/2018) RM'000	Preceding year corresponding quarter (30/04/2017) RM'000	% Change	Current year to date (30/04/2018) RM'000	Preceding year corresponding year to date (30/04/2017) RM'000	% Change
<b>Revenue</b>	82,328	84,995	(3%)	264,512	248,222	7%
<b>Other items of income</b>						
Interest income	940	574	64%	2,433	1,876	30%
Dividend income	45	40	13%	91	76	20%
Other income	165	764	(78%)	1,911	1,059	80%
<b>Items of expenses</b>						
Raw materials and consumables used	(6,933)	(7,935)	(13%)	(24,117)	(25,052)	(4%)
Changes in work-in-progress and finished goods	(234)	(25)	NM	(35)	616	NM
Employee benefits expense	(26,557)	(27,480)	(3%)	(84,977)	(84,397)	1%
Depreciation of property, plant and equipment	(19,713)	(17,597)	12%	(58,560)	(48,265)	21%
Finance costs	(1,017)	(551)	85%	(2,845)	(1,545)	84%
Other expenses	(21,789)	(20,534)	6%	(64,702)	(57,565)	12%
<b>Profit before tax</b>	7,235	12,251	(41%)	33,711	35,025	(4%)
Income tax expense	(1,765)	(1,647)	7%	(5,689)	(4,434)	28%
<b>Profit net of tax</b>	5,470	10,604	(48%)	28,022	30,591	(8%)
<b>Other comprehensive income:</b>						
<b>Item to be reclassified subsequently to profit or loss</b>						
Foreign currency translation gain/(loss)	13	(482)	NM	(1,860)	1,808	NM
<b>Total comprehensive income for the period</b>	5,483	10,122	(46%)	26,162	32,399	(19%)
Earnings per share attributable to owners of the Company (sen):						
- Basic	12.7	24.7	(49%)	65.1	71.1	(8%)

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 30 APRIL 2018**

	<u>As at end of current quarter 30/04/2018</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	222,227	242,873
Deferred tax assets	754	786
	<u>222,981</u>	<u>243,659</u>
<b>Current assets</b>		
Inventories	8,623	7,151
Trade and other receivables	78,449	82,680
Prepayments	7,281	6,718
Tax recoverable	802	437
Investment securities held for trading	8,127	8,046
Cash and short-term deposits	146,281	127,576
	<u>249,563</u>	<u>232,608</u>
<b>Total assets</b>	<u>472,544</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	18,097	19,957
Retained earnings	290,945	265,504
<b>Total equity</b>	<u>352,720</u>	<u>329,139</u>
<b>Non-current liabilities</b>		
Obligations under finance leases	2,920	2,102
Bank loans	38,175	35,502
Defined benefit obligations	3,301	3,038
	<u>44,396</u>	<u>40,642</u>
<b>Current liabilities</b>		
Trade and other payables	32,669	74,586
Obligations under finance leases	5,203	3,983
Bank loans	35,096	27,892
Income tax payable	2,460	25
	<u>75,428</u>	<u>106,486</u>
<b>Total liabilities</b>	<u>119,824</u>	<u>147,128</u>
<b>Total equity and liabilities</b>	<u>472,544</u>	<u>476,267</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.20</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 30 APRIL 2018**

FY2018	< ----- Attributable to owners of the Company ----- >						Total equity
	< ----- Non-distributable ----- >					Distributable	
	Share capital	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
<b>At 1 August 2017</b>	43,678	13,088	4,629	2,240	265,504		329,139
Profit for the period	-	-	-	-	28,022		28,022
Other comprehensive income for the period	-	(1,860)	-	-	-		(1,860)
<b>Transaction with owners</b>							
Dividends	-	-	-	-	(2,581)		(2,581)
<b>At 30 April 2018</b>	43,678	11,228	4,629	2,240	290,945		352,720

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	RM'000
<b>At 1 August 2016</b>	43,015	663	10,531	4,629	2,240	225,640		286,718
Profit for the period	-	-	-	-	-	30,591		30,591
Other comprehensive income for the period	-	-	1,808	-	-	-		1,808
<b>Transactions with owners</b>								
Upon abolition of par value*	663	(663)	-	-	-	-		-
Dividends	-	-	-	-	-	(1,290)		(1,290)
<b>At 30 April 2017</b>	43,678	-	12,339	4,629	2,240	254,941		317,827

\* 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 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 30 APRIL 2018**

	<b>Current year to date 30/04/2018</b>	<b>Preceding year corresponding year to date 30/04/2017</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	33,711	35,025
Adjustments for:		
Depreciation of property, plant and equipment	58,560	48,265
Plant and equipment written off	-	5
Gain on disposal of property, plant and equipment	(77)	(236)
Write-down/(write-back) of inventories	93	(104)
Gain on disposal of investment securities held for trading	-	(47)
Net fair value loss/(gain) on investment securities held for trading	441	(437)
Unrealised exchange gain	(3)	(8)
Dividend income	(91)	(76)
Interest income	(2,433)	(1,876)
Finance costs	2,845	1,545
<b>Operating cash flows before working capital changes</b>	<b>93,046</b>	<b>82,056</b>
(Increase)/decrease in inventories	(1,565)	204
Decrease/(increase) in prepayments and receivables	2,559	(14,941)
Decrease in payables	(40,096)	(2,495)
<b>Cash flows generated from operations</b>	<b>53,944</b>	<b>64,824</b>
Income taxes paid	(3,587)	(2,701)
Interest paid	(2,845)	(1,545)
Interest received	2,433	1,876
<b>Net cash flows generated from operating activities</b>	<b>49,945</b>	<b>62,454</b>
<b>INVESTING ACTIVITIES</b>		
Increase in short-term deposits with maturity more than three months	(8,706)	(6,000)
Purchase of investment securities held for trading	(522)	(2,315)
Proceeds from disposal of investment securities held for trading	-	886
Dividend income	91	76
Purchase of property, plant and equipment	(32,534)	(81,265)
Proceeds from disposal of property, plant and equipment	77	757
<b>Net cash flows used in investing activities</b>	<b>(41,594)</b>	<b>(87,861)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of obligations under finance leases	(3,019)	(1,645)
Repayment of bank loans	(32,234)	(22,869)
Proceeds from bank loans	42,278	25,625
Dividend paid on ordinary shares	(5,377)	(1,290)
<b>Net cash flows generated from/(used in) financing activities</b>	<b>1,648</b>	<b>(179)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>9,999</b>	<b>(25,586)</b>
Effects of exchange rate changes	-	783
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>91,440</b>	<b>87,945</b>

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Cash and cash equivalents comprised the following:

	<b>Current year to date 30/04/2018 RM'000</b>	<b>Preceding year corresponding year to date 30/04/2017 RM'000</b>
Cash at banks	31,157	30,640
Deposits with licensed banks	115,124	63,305
Cash and short-term deposits	146,281	93,945
Less: Short-term deposits with maturity more than three months	(54,841)	(6,000)
Cash and cash equivalents	91,440	87,945

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>30/04/2018</u> RM'000	<u>Preceding year corresponding year to date</u> <u>30/04/2017</u> RM'000
<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 current quarter 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 RM38,630,000.

**12. Significant related party transactions**

	<u>Current year to date</u> <u>30/04/2018</u> RM'000	<u>Preceding year corresponding year to date</u> <u>30/04/2017</u> RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by holding company	8,780	6,572
Dividends paid to holding company	1,250	625
Rendering of services to related companies	-	25
Purchases of equipment and consumables from related companies	4,676	1,537
Receiving of services from related companies	<u>-</u>	<u>38</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 RM13,429,000 as at 30 April 2018.

**14. Profit before tax**

	Individual period		Cumulative period	
	Current year quarter 30/04/2018	Preceding year corresponding quarter 30/04/2017	Current year to date 30/04/2018	Preceding year corresponding year to date 30/04/2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	17	-	93	-
Plant and equipment written off	-	-	-	5
Net fair value loss on investment securities held for trading	1,047	-	441	-
Net foreign exchange loss	16	239	-	32
And crediting:				
Write-back of inventories	-	-	-	104
Gain on disposal of property, plant and equipment	9	-	77	236
Gain on disposal of investment securities held for trading	-	-	-	47
Net fair value gain on investment securities held for trading	-	543	-	437
Net foreign exchange gain	-	-	226	-

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 decreased by RM2.7 million or 3%, from RM85.0 million in the preceding year's third quarter, to RM82.3 million for the current quarter ended 30 April 2018 ("3QFY2018"), mainly due to lower demand for electronic manufacturing services ("EMS").

Raw materials and consumables used and changes in work-in-progress and finished goods decreased by RM0.8 million or 10%, from RM8.0 million to RM7.2 million, due to lower revenue from EMS.

Employee benefits expense decreased by RM0.9 million or 3%, as a result of lower staff compensation.

Depreciation was higher by RM2.1 million or 12% as additional machinery and test equipment were commissioned for use in the production.

Other expenses were higher by RM1.3 million or 6%, primarily because of a net fair value loss of RM1.0 million on investment securities held for trading.

Consequently, the Group's profit before tax reduced by RM5.0 million or 41%, from RM12.3 million to RM7.2 million in 3QFY2018.

Analysis of the performance for the current financial year to date

The Group's revenue increased by RM16.3 million or 7%, from RM248.2 million in the preceding year's corresponding period to RM264.5 million for the current financial period ended 30 April 2018, as a result of higher demand for burn-in and testing services.

Depreciation was higher by RM10.3 million or 21% as additional machinery and test equipment were commissioned for use in the production.

Finance costs were higher by RM1.3 million or 84% as a result of additional borrowings to fund the capital expenditure.

Other expenses were higher by RM7.1 million or 12%, mainly due to higher repairs and maintenance expense by RM1.1 million and utilities by RM2.6 million to support higher revenue, and an increase in management fees of RM2.2 million.

Consequently, the Group's profit before tax reduced by RM1.3 million or 4%, from RM35.0 million to RM33.7 million in the reporting period under review.

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Analysis of financial position

Property, plant and equipment (“PPE”) was lower by 9% or RM20.6 million, from RM242.9 million as at 31 July 2017 to RM222.2 million as at 30 April 2018. The decrease in PPE was primarily due to depreciation charge of RM58.6 million, offset by capital expenditure of RM38.6 million.

Trade and other receivables was lower by 5% or RM4.2 million, from RM82.7 million to RM78.4 million, mainly due to lower revenue.

Cash and short-term deposits improved by 15% or RM18.7 million, from RM127.6 million to RM146.3 million, which represented the net surplus cash generated from operations.

Trade and other payables was lower by 56% or RM41.9 million, from RM74.6 million to RM32.7 million, largely attributable to settlement of balances due for purchases of machinery and test equipment of RM26.8 million, and lower accrued operating expenses by RM8.1 million.

The Group’s loans and borrowings increased by 17% or RM11.9 million, from RM69.5 million to RM81.4 million, as a result of additional borrowings to fund the capital expenditure.

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

The Group achieved profit before tax of RM7.2 million for 3QFY2018, compared to RM13.0 million in the preceding quarter ended 31 January 2018. The decrease in profit before tax by RM5.8 million was mainly due to lower net revenue<sup>1</sup> by RM7.3 million, offset by lower employee benefits expense by RM1.5 million as a result of lower staff compensation.

**20. Prospects**

World-wide semiconductor revenue is estimated to reach USD451 billion in 2018, representing a growth of 7.3% from USD420.4 billion in 2017. This reflects a more normal rate of growth.

The supply of materials for burn in and testing services has not been consistently smooth. Our equipment utilisation was affected. This unexpected disruption will progressively be corrected.

**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.

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<sup>1</sup> Revenue less raw materials and consumables used and changes in work-in-progress and finished goods.

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**22. Taxation**

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	30/04/2018	30/04/2017	30/04/2018	30/04/2017
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,712	1,294	5,587	4,318
- Under provision in prior years	70	353	70	116
	<u>1,782</u>	<u>1,647</u>	<u>5,657</u>	<u>4,434</u>
Deferred tax				
- Relating to origination and reversal of temporary differences	(17)	-	32	-
	<u>1,765</u>	<u>1,647</u>	<u>5,689</u>	<u>4,434</u>

The effective tax rate for the current quarter was higher than the statutory tax rate mainly due to certain non-deductible expenses.

The effective tax rate for the current financial year to date was lower than the statutory tax rate, largely because of 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.

**24. Group borrowings and debt securities**

	As at	As at
	30/04/2018	31/07/2017
	RM'000	RM'000
(a) Obligations under finance leases - secured	8,123	6,085
Bank loans *	73,271	63,394
	<u>81,394</u>	<u>69,479</u>
(b) Repayable within 12 months	40,299	31,875
Repayable after 12 months	41,095	37,604
	<u>81,394</u>	<u>69,479</u>
(c) Total loans and borrowings denominated in:		
Renminbi	9,734	5,026
Ringgit Malaysia	71,660	64,453
	<u>81,394</u>	<u>69,479</u>

\* Included in the bank loans were secured term loans of RM9,734,000 (31/07/2017: RM5,026,000).

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**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 by the weighted average number of ordinary shares outstanding during the reporting period.

	<b>Individual Period</b>		<b>Cumulative Period</b>	
	<b>Current year quarter</b>	<b>Preceding year corresponding quarter</b>	<b>Current year to date</b>	<b>Preceding year corresponding year to date</b>
	<b>30/04/2018</b>	<b>30/04/2017</b>	<b>30/04/2018</b>	<b>30/04/2017</b>
Profit net of tax (RM'000)	5,470	10,604	28,022	30,591
Weighted average number of ordinary shares ('000)	43,014.5	43,014.5	43,014.5	43,014.5
Basic earnings per share (sen)	12.7	24.7	65.1	71.1

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 : 31 May 2018

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**SUMMARY OF KEY FINANCIAL INFORMATION**  
**FOR THE THIRD QUARTER ENDED 30 APRIL 2018**

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (30/04/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2017) RM'000	CURRENT YEAR TO DATE (30/04/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (30/04/2017) RM'000
1.	Revenue	82,328	84,995	264,512	248,222
2.	Profit before tax	7,235	12,251	33,711	35,025
3.	Profit for the period	5,470	10,604	28,022	30,591
4.	Profit attributable to ordinary equity holders of the Company	5,470	10,604	28,022	30,591
5.	Basic earnings per share (sen)	12.7	24.7	65.1	71.1
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)	8.2000	7.6518

**ADDITIONAL INFORMATION**

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (30/04/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2017) RM'000	CURRENT YEAR TO DATE (30/04/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (30/04/2017) RM'000
1.	Gross interest income	940	574	2,433	1,876
2.	Gross interest expense	1,017	551	2,845	1,545