

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FOURTH QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JULY 2018**

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

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

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding quarter		to date	corresponding year to date	
	(31/07/2018)	(31/07/2017)		(31/07/2018)	(31/07/2017)	
	RM'000	RM'000		RM'000	RM'000	
Revenue	85,265	89,766	(5%)	349,777	337,988	3%
Other items of income						
Interest income	1,316	629	NM	3,749	2,505	50%
Dividend income	95	65	46%	186	141	32%
Other income	1,612	521	NM	3,082	1,580	95%
Items of expenses						
Raw materials and consumables used	(7,869)	(8,488)	(7%)	(31,986)	(33,644)	(5%)
Changes in inventories of finished goods and work-in-progress	362	(497)	NM	327	119	NM
Employee benefits expense	(27,838)	(28,530)	(2%)	(112,815)	(112,927)	(0%)
Depreciation of property, plant and equipment	(19,801)	(18,439)	7%	(78,361)	(66,704)	17%
Finance costs	(1,254)	(895)	40%	(4,099)	(2,440)	68%
Other expenses	(21,913)	(21,314)	3%	(86,174)	(78,775)	9%
Profit before tax	9,975	12,818	(22%)	43,686	47,843	(9%)
Income tax credit/(expense)	1,341	585	NM	(4,348)	(3,849)	13%
Profit, net of tax	11,316	13,403	(16%)	39,338	43,994	(11%)
Other comprehensive income:						
Item that will not be reclassified to profit or loss						
Remeasurement gain/(loss) arising from defined benefit liabilities, net of tax	10	(44)	NM	10	(44)	NM
Item to be reclassified subsequently to profit or loss						
Foreign currency translation (loss)/gain	(2,162)	749	NM	(4,022)	2,557	NM
Other comprehensive income for the period, net of tax	(2,152)	705	NM	(4,012)	2,513	NM
Total comprehensive income for the period, net of tax	9,164	14,108	(35%)	35,326	46,507	(24%)
Earnings per share attributable to owners of the Company (sen):						
- Basic	26.3	31.2	(16%)	91.5	102.3	(11%)

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 JULY 2018

	<u>As at end of current year 31/07/2018</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	211,032	242,873
Deferred tax assets	3,229	786
	<u>214,261</u>	<u>243,659</u>
Current assets		
Inventories	9,263	7,151
Trade and other receivables	77,341	82,680
Prepayments	5,627	6,718
Investment securities held for trading	9,647	8,046
Tax recoverables	1,163	437
Cash and short-term deposits	177,573	127,576
	<u>280,614</u>	<u>232,608</u>
Total assets	<u>494,875</u>	<u>476,267</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	15,935	19,957
Retained earnings	296,894	265,504
Total equity	<u>356,507</u>	<u>329,139</u>
Non-current liabilities		
Obligations under finance leases	2,057	2,102
Bank loans	44,980	35,502
Defined benefit liabilities	3,358	3,038
Deferred tax liabilities	3,019	-
	<u>53,414</u>	<u>40,642</u>
Current liabilities		
Trade and other payables	37,015	74,586
Obligations under finance leases	4,494	3,983
Bank loans	43,386	27,892
Income tax payable	59	25
	<u>84,954</u>	<u>106,486</u>
Total liabilities	<u>138,368</u>	<u>147,128</u>
Total equity and liabilities	<u>494,875</u>	<u>476,267</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.29</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 JULY 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
As at 1 August 2017	43,678	13,088	4,629	2,240	265,504	329,139	
Profit for the year	-	-	-	-	39,338	39,338	
Other comprehensive income for the year	-	(4,022)	-	-	10	(4,012)	
Transaction with owners							
Dividends on ordinary shares	-	-	-	-	(7,958)	(7,958)	
As at 31 July 2018	43,678	9,066	4,629	2,240	296,894	356,507	

FY2017	< ----- 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
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2016	43,015	663	10,531	4,629	2,240	225,640	286,718
Profit for the year	-	-	-	-	-	43,994	43,994
Other comprehensive income for the year	-	-	2,557	-	-	(44)	2,513
Transactions with owners							
Upon abolition of par value*	663	(663)	-	-	-	-	-
Dividends on ordinary shares	-	-	-	-	-	(4,086)	(4,086)
As at 31 July 2017	43,678	-	13,088	4,629	2,240	265,504	329,139

* On 31 January 2017, in accordance with the Companies Act 2016 in Malaysia, 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 31 JULY 2018

	Current year to date 31/07/2018 RM'000	Preceding year corresponding year to date 31/07/2017 RM'000
OPERATING ACTIVITIES		
Profit before tax	43,686	47,843
Adjustments for:		
Depreciation of property, plant and equipment	78,361	66,704
Plant and equipment written off	6	7
Net gain on disposal of property, plant and equipment	(104)	(236)
Write-off/(write-back) of inventories	69	(104)
Gain on disposal of investment securities held for trading	-	(47)
Net fair value gain on investment securities held for trading	(937)	(914)
Unrealised exchange (gain)/loss	(70)	128
Dividend income	(186)	(141)
Interest income	(3,749)	(2,505)
Finance costs	4,099	2,440
Operating cash flows before changes in working capital	121,175	113,175
(Increase)/decrease in inventories	(2,181)	1,480
Decrease/(increase) in prepayments and receivables	6,033	(12,906)
(Decrease)/increase in payables	(41,786)	3,495
Cash flows from operations	83,241	105,244
Income taxes paid	(4,582)	(4,832)
Interest paid	(3,752)	(2,398)
Interest received	3,040	2,505
Net cash flows from operating activities	77,947	100,519
INVESTING ACTIVITIES		
Increase in short-term deposits with maturity more than three months	(56,722)	(45,135)
Purchase of investment securities held for trading	(1,690)	(3,787)
Proceeds from disposal of investment securities held for trading	1,026	886
Dividend income	186	141
Purchase of property, plant and equipment	(41,516)	(107,140)
Proceeds from disposal of property, plant and equipment	134	1,923
Net cash flows used in investing activities	(98,582)	(153,112)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(4,591)	(2,475)
Repayment of bank loans	(43,589)	(35,988)
Proceeds from bank loans	68,904	63,370
Dividend paid on ordinary shares	(5,377)	(3,226)
Net cash flows from financing activities	15,347	21,681
Net decrease in cash and cash equivalents	(5,288)	(30,912)
Effect of exchange rate changes on cash and cash equivalents	(1,437)	605
Cash and cash equivalents at beginning of the year	81,441	111,748
Cash and cash equivalents at end of the year	74,716	81,441

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Cash and cash equivalents comprised the following:

	Current year to date 31/07/2018 RM'000	Preceding year corresponding year to date 31/07/2017 RM'000
Cash at banks and on hand	23,220	42,670
Deposits with licensed banks	154,353	84,906
Cash and short-term deposits	177,573	127,576
Less: Short-term deposits with maturity more than three months	(102,857)	(46,135)
Cash and cash equivalents	74,716	81,441

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 financial year, 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.

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.

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8. Dividends

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/07/2018</u>	<u>31/07/2017</u>
	<u>RM'000</u>	<u>RM'000</u>
Recognised during the financial year		
Final tax exempt dividend for 2017 at 6 sen (2016: 3 sen) per ordinary share, was paid on 13 February 2018	2,581	1,290
Interim tax exempt dividend for 2018 at 12.5 sen (2017: 6.5 sen) per ordinary share, was paid on 17 August 2018	5,377	2,796
	<u>7,958</u>	<u>4,086</u>
Proposed but not recognised as a liability as at 31 July		
Final tax exempt dividend for 2018 at 6 sen (2017: 6 sen) per ordinary share, to be approved by shareholders at the Annual General Meeting	<u>2,581</u>	<u>2,581</u>

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.

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

During the current financial year, the Group acquired plant and equipment amounting to RM47,827,000, and disposed (including write-off) plant and equipment of net book value amounting to RM36,000.

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12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/07/2018</u>	<u>31/07/2017</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	11,525	9,552
Dividends paid/payable to holding company	3,853	1,978
Rendering of services to related companies	-	25
Purchases of equipment and consumables from related companies	4,681	2,722
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 RM14,493,000 as at 31 July 2018.

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14. Profit before tax

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/07/2018	31/07/2017	31/07/2018	31/07/2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-off of inventories	-	-	69	-
Plant and equipment written off	6	2	6	7
Net foreign exchange loss	-	228	-	260
And crediting:				
Write-back of inventories	24	-	-	104
Net gain on disposal of property, plant and equipment	27	-	104	236
Net gain on disposal of investment securities held for trading	-	-	-	47
Net fair value gain on investment securities held for trading	1,378	477	937	914
Net foreign exchange gain	72	-	298	-

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.

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.

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 5% or RM4.5 million, from RM89.8 million in the preceding year's fourth quarter, to RM85.3 million for the current quarter ended 31 July 2018 ("4QFY2018"), mainly due to lower demand for burn-in, testing and electronic manufacturing services.

Other income was higher by RM1.1 million, mainly due to higher fair value gain on investment securities held for trading by RM0.9 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress decreased by 16% or RM1.5 million, from RM9.0 million to RM7.5 million, due to lower revenue from electronic manufacturing service ("EMS").

Depreciation was higher by 7% or RM1.4 million as additional machinery and test equipment were commissioned for use in the production.

Consequently, the Group's profit before tax reduced by 22% or RM2.8 million, from RM12.8 million to RM10.0 million in 4QFY2018.

Analysis of the performance for the current financial year

The Group's revenue improved by 3% or RM11.8 million, from RM338.0 million in the preceding year to RM349.8 million for the current financial year as a result of higher demand for burn-in and testing services.

Other income was higher by 95% or RM1.5 million, mainly due to higher gain on disposal of machinery spares by RM0.9 million, and an exchange gain of RM0.3 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress decreased by 6% or RM1.9 million, from RM33.5 million to RM31.7 million, attributed to reduced sales from EMS.

Depreciation was higher by 17% or RM11.7 million as additional machinery and test equipment were commissioned for use in the production.

Other expenses increased by 9% or RM7.4 million, mainly due to higher utilities by RM4.3 million to support higher revenue, and higher management fees by RM2.0 million.

Consequently, the Group's profit before tax reduced by 9% or RM4.2 million, from RM47.8 million to RM43.7 million in the current financial year.

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Analysis of financial position

Property, plant and equipment (“PPE”) was lower by 13% or RM31.8 million, from RM242.9 million as at 31 July 2017 (“FY2017”) to RM211.0 million as at 31 July 2018 (“FY2018”). The decrease in PPE was primarily due to depreciation charge of RM78.4 million, offset by capital expenditure of RM47.8 million.

Trade and other receivables reduced by 6% or RM5.3 million, from RM82.7 million to RM77.3 million, mainly due to lower revenue in 4QFY2018.

Cash and short-term deposits improved by 39% or RM50.0 million, from RM127.6 million to RM177.6 million, which represented the net surplus cash generated from operations.

Trade and other payables decreased by 50% or RM37.6 million, from RM74.6 million to RM37.0 million, largely attributable to settlement of balances due for purchases of machinery and test equipment of RM26.6 million, and lower accrued operating expenses by RM8.8 million.

The Group’s loans and borrowings were higher by 37% or RM25.4 million, from RM69.5 million to RM94.9 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 RM10.0 million for 4QFY2018, compared to RM7.2 million in the preceding quarter ended 30 April 2018. The increase in profit before tax by RM2.7 million was mainly due to a fair value gain on investment securities held for trading of RM1.4 million in 4QFY18, from a fair value loss on investment securities held for trading of RM1.0 million.

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.

According to the July 2018 International Monetary Fund Outlook Report, global growth is projected to reach 3.9% in 2018, from 3.7% in 2017.

The broad indices of the semiconductor industry and global growth are positive indicators of another satisfactory year.

However, these positive outlooks may be disrupted by the escalation of trade wars between major economies and uncertainties inflicted on cross border mergers and acquisitions seen in the semiconductor industry. These risks may impact the steady flow of material supplies for our burn-in and test services.

Nonetheless, the Group is relentlessly streamlining its operations to better position itself for business volatility.

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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22. Taxation

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/07/2018	31/07/2017	31/07/2018	31/07/2017
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(1,767)	(394)	3,820	3,924
- Under/(over) provision in prior years	-	(7)	70	109
	<u>(1,767)</u>	<u>(401)</u>	<u>3,890</u>	<u>4,033</u>
Deferred tax				
- Relating to origination and reversal of temporary differences	722	(203)	754	(203)
- (Over)/under provision in prior years	(296)	19	(296)	19
	<u>426</u>	<u>(184)</u>	<u>458</u>	<u>(184)</u>
	<u>(1,341)</u>	<u>(585)</u>	<u>4,348</u>	<u>3,849</u>

The effective tax rates for the current quarter and financial year were lower than the statutory tax rate, mainly due to the availability and certain recognition of tax benefits, such as other deductible temporary differences.

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
	31/07/2018	31/07/2017
	RM'000	RM'000
(a) Obligations under finance leases - secured	6,551	6,085
Bank loans*	88,366	63,394
	<u>94,917</u>	<u>69,479</u>
(b) Repayable within 12 months	47,880	31,875
Repayable after 12 months	47,037	37,604
	<u>94,917</u>	<u>69,479</u>
(c) Total loans and borrowings denominated in:		
Renminbi	12,221	5,026
Ringgit Malaysia	82,696	64,453
	<u>94,917</u>	<u>69,479</u>

* Included in the bank loans were secured term loans of RM12,221,000 (31/07/2017: RM5,026,000).

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25. Changes in material litigation

Further to the announcement made on 14 September 2018, there were no changes in 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 current financial year.

	<u>Individual Period</u>		<u>Cumulative Period</u>	
	<u>Current year quarter</u>	<u>Preceding year corresponding quarter</u>	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/07/2018</u>	<u>31/07/2017</u>	<u>31/07/2018</u>	<u>31/07/2017</u>
Profit net of tax (RM'000)	11,316	13,403	39,338	43,994
Weighted average number of ordinary shares ('000)	43,014.5	43,014.5	43,014.5	43,014.5
Basic earnings per share (sen)	<u>26.3</u>	<u>31.2</u>	<u>91.5</u>	<u>102.3</u>

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: 21 September 2018

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SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FOURTH QUARTER ENDED 31 JULY 2018

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/07/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/07/2017) RM'000	CURRENT YEAR TO DATE (31/07/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/07/2017) RM'000
1.	Revenue	85,265	89,766	349,777	337,988
2.	Profit before tax	9,975	12,818	43,686	47,843
3.	Profit for the period	11,316	13,403	39,338	43,994
4.	Profit attributable to ordinary equity holders of the Company	11,316	13,403	39,338	43,994
5.	Basic earnings per share (sen)	26.3	31.2	91.5	102.3
6.	Proposed/Declared dividend per share (sen)	6.00	6.00	18.50	12.50

		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)	8.2881	7.6518

ADDITIONAL INFORMATION

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/07/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/07/2017) RM'000	CURRENT YEAR TO DATE (31/07/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/07/2017) RM'000
1.	Gross interest income	1,316	629	3,749	2,505
2.	Gross interest expense	1,254	895	4,099	2,440