

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2018**

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

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

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding quarter		to date	corresponding year to date	
	(31/10/2018)	(31/10/2017)		(31/10/2018)	(31/10/2017)	
	RM'000	RM'000		RM'000	RM'000	
Revenue	81,558	90,711	(10%)	81,558	90,711	(10%)
Other items of income						
Interest income	1,457	671	NM	1,457	671	NM
Dividend income	20	27	(26%)	20	27	(26%)
Other income	146	1,359	(89%)	146	1,359	(89%)
Items of expenses						
Raw materials and consumables used	(9,431)	(8,037)	17%	(9,431)	(8,037)	17%
Changes in inventories of finished goods and work-in-progress	676	95	NM	676	95	NM
Employee benefits expense	(28,236)	(30,326)	(7%)	(28,236)	(30,326)	(7%)
Depreciation of property, plant and equipment	(19,550)	(19,286)	1%	(19,550)	(19,286)	1%
Finance costs	(1,175)	(837)	40%	(1,175)	(837)	40%
Other expenses	(21,669)	(20,923)	4%	(21,669)	(20,923)	4%
Profit before tax	3,796	13,454	(72%)	3,796	13,454	(72%)
Income tax expense	(1,155)	(2,079)	(44%)	(1,155)	(2,079)	(44%)
Profit, net of tax	2,641	11,375	(77%)	2,641	11,375	(77%)
Other comprehensive income:						
Item to be reclassified subsequently to profit or loss						
Foreign currency translation gain/(loss)	812	(18)	NM	812	(18)	NM
Total comprehensive income for the period, net of tax	3,453	11,357	(70%)	3,453	11,357	(70%)
Earnings per share attributable to owners of the Company (sen):						
- Basic	6.1	26.4	(77%)	6.1	26.4	(77%)

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 2018 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2018

	<u>As at end of current quarter 31/10/2018</u>	<u>As at preceding financial year end 31/07/2018</u>
	<u>RM'000</u>	<u>RM'000</u>
ASSETS		
Non-current assets		
Property, plant and equipment	201,955	211,032
Deferred tax assets	3,356	3,229
	<u>205,311</u>	<u>214,261</u>
Current assets		
Inventories	9,638	9,263
Trade and other receivables	73,661	77,341
Prepayments	5,880	5,627
Investment securities held for trading	7,513	9,647
Tax recoverables	633	1,163
Cash and short-term deposits	185,455	177,573
	<u>282,780</u>	<u>280,614</u>
Total assets	<u>488,091</u>	<u>494,875</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	16,747	15,935
Retained earnings	299,535	296,894
Total equity	<u>359,960</u>	<u>356,507</u>
Non-current liabilities		
Obligations under finance leases	2,164	2,057
Bank loans	35,544	44,980
Defined benefit liabilities	3,446	3,358
Deferred tax liabilities	2,845	3,019
	<u>43,999</u>	<u>53,414</u>
Current liabilities		
Trade and other payables	34,085	37,015
Obligations under finance leases	4,582	4,494
Bank loans	45,455	43,386
Income tax payable	10	59
	<u>84,132</u>	<u>84,954</u>
Total liabilities	<u>128,131</u>	<u>138,368</u>
Total equity and liabilities	<u>488,091</u>	<u>494,875</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.37</u>	<u>8.29</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 2018 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 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	
FY2019						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2018	43,678	9,066	4,629	2,240	296,894	356,507
Profit for the period	-	-	-	-	2,641	2,641
Other comprehensive income for the period	-	812	-	-	-	812
As at 31 October 2018	43,678	9,878	4,629	2,240	299,535	359,960

	< ----- 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
As 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)
As at 31 October 2017	43,678	13,070	4,629	2,240	276,879	340,496

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 2018 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 2018

	Current year to date 31/10/2018 RM'000	Preceding year corresponding year to date 31/10/2017 RM'000
OPERATING ACTIVITIES		
Profit before tax	3,796	13,454
Adjustments for:		
Depreciation of property, plant and equipment	19,550	19,286
Plant and equipment written off	1	-
Write-down of inventories	52	33
Loss on disposal of investment securities held for trading	98	-
Net fair value loss/(gain) on investment securities held for trading	306	(585)
Unrealised exchange gain	(12)	(55)
Dividend income	(20)	(27)
Interest income	(1,457)	(671)
Finance costs	1,175	837
Operating cash flows before changes in working capital	23,489	32,272
Increase in inventories	(427)	(749)
Decrease in prepayments and receivables	3,681	301
Increase/(decrease) in payables	328	(26,344)
Cash flows from operations	27,071	5,480
Income taxes paid	(938)	(1,419)
Interest paid	(1,215)	(837)
Interest received	1,452	671
Net cash flows from operating activities	26,370	3,895
INVESTING ACTIVITIES		
(Increase)/decrease in short-term deposits with maturity more than three months	(8,846)	4,606
Purchase of investment securities held for trading	(568)	(232)
Proceeds from disposal of investment securities held for trading	2,298	-
Dividend income	20	27
Purchase of property, plant and equipment	(5,943)	(5,816)
Net cash flows used in investing activities	(13,039)	(1,415)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,589)	(982)
Repayment of bank loans	(12,237)	(11,209)
Proceeds from bank loans	4,696	18,410
Dividend paid on ordinary shares	(5,377)	(2,796)
Net cash flows (used in)/from financing activities	(14,507)	3,423
Net (decrease)/increase in cash and cash equivalents	(1,176)	5,903
Effect of exchange rate changes on cash and cash equivalents	212	(5)
Cash and cash equivalents at beginning of the year	74,716	81,441
Cash and cash equivalents at end of the period	73,752	87,339

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Cash and cash equivalents comprised the following:

	Current year to date 31/10/2018 RM'000	Preceding year corresponding year to date 31/10/2017 RM'000
Cash at banks and on hand	28,097	34,530
Deposits with licensed banks	157,358	94,338
Cash and short-term deposits	185,455	128,868
Less: Short-term deposits with maturity more than three months	(111,703)	(41,529)
Cash and cash equivalents	73,752	87,339

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2018 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 2018. 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 2018.

2. Significant accounting policies

The significant accounting policies and methods of computation in the interim financial statements are consistent with those of the audited financial statements for the year ended 31 July 2018 except that on 1 August 2018, the Group adopted the MFRSs, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2018 which are applicable to the Group including MFRS 9 Financial Instruments and MFRS 15 Revenue from Contracts with Customers. The initial adoption of these applicable MFRSs, amendments and interpretations do not have any material impact 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 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 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 reporting period, the Group acquired plant and equipment amounting to RM10,074,000, and disposed (including write-off) plant and equipment of net book value amounting to RM1,000.

12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/10/2018</u>	<u>31/10/2017</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	2,691	2,982
Purchases of equipment and consumables from related companies	72	336

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 RM12,227,000 as at 31 October 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
	31/10/2018	31/10/2017	31/10/2018	31/10/2017
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	52	33	52	33
Plant and equipment written off	1	-	1	-
Loss on disposal of investment securities held for trading	98	-	98	-
Net fair value loss on investment securities held for trading	306	-	306	-
Net foreign exchange loss	106	-	106	-
And crediting:				
Net fair value gain on investment securities held for trading	-	585	-	585
Net foreign exchange gain	-	93	-	93

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 reporting period.

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 reporting period.

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 was lower by 10% or RM9.2 million, from RM90.7 million in the preceding year's first quarter, to RM81.6 million for the current quarter ended 31 October 2018 ("1QFY2019"), mainly due to lower demand for burn-in and testing services.

Interest income was higher by RM0.8 million, following higher placements of short-term deposits.

Other income reduced by 89% or RM1.2 million, mainly due to the absence of a fair value gain on investment securities held for trading of RM0.6 million and absence of a gain on disposal of machinery spares of RM0.5 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 10% or RM0.8 million, from RM7.9 million to RM8.8 million, as a result of higher material costs incurred in rendering electronic manufacturing service to newer customers.

Employee benefits expense decreased by 7% or RM2.1 million, following the alignment of staff costs to operational requirements.

Other expenses were higher by 4% or RM0.7 million, mainly attributable to higher utility costs by RM0.9 million, resulting from higher rates.

Consequently, the Group's profit before tax reduced by 72% or RM9.7 million, from RM13.5 million to RM3.8 million in 1QFY2019.

Analysis of financial position

Property, plant and equipment ("PPE") was lower by 4% or RM9.1 million, from RM211.0 million as at 31 July 2018 ("FY2018") to RM202.0 million as at 31 October 2018. The decrease in PPE was primarily due to depreciation charge of RM19.6 million, offset by capital expenditure of RM10.1 million.

Trade and other receivables reduced by 5% or RM3.7 million, from RM77.3 million to RM73.7 million, mainly due to lower trade receivables as a result of lower revenue in 1QFY2019.

Investment securities held for trading decreased by 22% or RM2.1 million, from RM9.6 million to RM7.5 million, following a disposal of quoted equity shares of RM2.4 million.

Cash and short-term deposits improved by 4% or RM7.9 million, from RM177.6 million to RM185.5 million, which represented the net surplus cash generated from operations.

Trade and other payables decreased by 8% or RM2.9 million, from RM37.0 million to RM34.1 million, largely attributable to dividend payments of RM5.4 million, offset by higher payables for purchases of machinery and test equipment by RM1.1 million, and higher accrued operating expenses by RM0.6 million and an increase of certain sundry payables of RM1.1 million.

The Group's loans and borrowings were lower by 8% or RM7.2 million, from RM94.9 million to RM87.7 million, primarily due to repayments of RM13.8 million, offset by additional borrowings of RM6.5 million 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 RM3.8 million for 1QFY2019, compared to RM10.0 million in the preceding quarter ended 31 July 2018.

The decrease in profit before tax by RM6.2 million was mainly due to (i) a reduction in net revenue¹ of RM5.0 million; and (ii) a variance of RM1.7 million arising from a fair value loss on investment securities held for trading in 1QFY2019, as compared to a fair value gain on investment securities held for trading in the preceding quarter.

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 October 2018 International Monetary Fund Outlook Report, global growth has been revised downwards, to be projected at 3.7% in 2018, following the on-going escalation of trade wars between major economies.

Although material supplies for our burn-in and test services are temporarily impacted, the Board believes that the Group will emerge more resilient and streamlined to support our customers' plans to adjust their production plans.

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

	<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>31/10/2018</u>	<u>31/10/2017</u>	<u>31/10/2018</u>	<u>31/10/2017</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current income tax				
- Malaysian income tax	1,419	2,027	1,419	2,027
Deferred tax				
- Relating to origination and reversal of temporary differences	(264)	52	(264)	52
	<u>1,155</u>	<u>2,079</u>	<u>1,155</u>	<u>2,079</u>

The effective tax rate for the current quarter was higher than the statutory tax rate, as certain deferred tax assets were not recognized on unutilised business losses and other deductible temporary differences.

¹ Revenue less raw materials and consumables used and changes in inventories of finished goods and work-in-progress.

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23. 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 10 January 2019. A circular which set out the details of the Proposed Renewal of Shareholders' Mandate had been issued to shareholders of the Company on 25 October 2018.

24. Group borrowings and debt securities

	<u>As at</u> <u>31/10/2018</u> <u>RM'000</u>	<u>As at</u> <u>31/07/2018</u> <u>RM'000</u>
(a) Obligations under finance leases - secured	6,746	6,551
Bank loans*	<u>80,999</u>	<u>88,366</u>
	<u>87,745</u>	<u>94,917</u>
(b) Repayable within 12 months	50,037	47,880
Repayable after 12 months	<u>37,708</u>	<u>47,037</u>
	<u>87,745</u>	<u>94,917</u>
(c) Total loans and borrowings denominated in:		
Renminbi	13,871	12,221
Ringgit Malaysia	<u>73,874</u>	<u>82,696</u>
	<u>87,745</u>	<u>94,917</u>

* Included in the bank loans were secured term loans of RM13,871,000 (31/07/2018: RM12,221,000).

25. Changes in material litigation

Further to the announcement made on 21 September 2018, there were no changes in material litigation as at the date of this announcement.

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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 reporting period.

	<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>31/10/2018</u>	<u>31/10/2017</u>	<u>31/10/2018</u>	<u>31/10/2017</u>
Profit net of tax (RM'000)	2,641	11,375	2,641	11,375
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>6.1</u>	<u>26.4</u>	<u>6.1</u>	<u>26.4</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: 22 November 2018

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SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FIRST QUARTER ENDED 31 OCTOBER 2018

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/10/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2017) RM'000	CURRENT YEAR TO DATE (31/10/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2017) RM'000
1.	Revenue	81,558	90,711	81,558	90,711
2.	Profit before tax	3,796	13,454	3,796	13,454
3.	Profit for the period	2,641	11,375	2,641	11,375
4.	Profit attributable to ordinary equity holders of the Company	2,641	11,375	2,641	11,375
5.	Basic earnings per share (sen)	6.1	26.4	6.1	26.4
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)	8.3683	8.2881

ADDITIONAL INFORMATION

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/10/2018) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2017) RM'000	CURRENT YEAR TO DATE (31/10/2018) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2017) RM'000
1.	Gross interest income	1,457	671	1,457	671
2.	Gross interest expense	1,175	837	1,175	837