

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2019**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 January 2019.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 JANUARY 2019**

	Individual period			Cumulative period		
	Current year quarter (31/01/2019) RM'000	Preceding year corresponding quarter (31/01/2018) RM'000	% Change	Current year to date (31/01/2019) RM'000	Preceding year corresponding year to date (31/01/2018) RM'000	% Change
Revenue	81,105	91,473	(11%)	162,663	182,184	(11%)
Other items of income						
Interest income	1,462	822	78%	2,919	1,493	96%
Dividend income	46	19	NM	66	46	43%
Other income	222	1,009	(78%)	289	2,368	(88%)
Items of expenses						
Raw materials and consumables used	(13,421)	(9,147)	47%	(22,852)	(17,184)	33%
Changes in inventories of finished goods and work-in-progress	(940)	104	NM	(264)	199	NM
Employee benefits expense	(24,833)	(28,094)	(12%)	(53,069)	(58,420)	(9%)
Depreciation of property, plant and equipment	(19,475)	(19,561)	(0%)	(39,025)	(38,847)	0%
Finance costs	(1,084)	(991)	9%	(2,259)	(1,828)	24%
Other expenses	(21,438)	(22,612)	(5%)	(43,028)	(43,535)	(1%)
Profit before tax	1,644	13,022	(87%)	5,440	26,476	(79%)
Income tax expense	(1,170)	(1,845)	(37%)	(2,325)	(3,924)	(41%)
Profit, net of tax	474	11,177	(96%)	3,115	22,552	(86%)
Other comprehensive income:						
Item to be reclassified subsequently to profit or loss						
Foreign currency translation gain/(loss)	907	(1,855)	NM	1,719	(1,873)	NM
Total comprehensive income for the period, net of tax	1,381	9,322	(85%)	4,834	20,679	(77%)
Earnings per share attributable to owners of the Company (sen):						
- Basic	1.1	26.0	(96%)	7.2	52.4	(86%)

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.

KESM INDUSTRIES BERHAD
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 JANUARY 2019

	As at end of current quarter 31/01/2019 RM'000	As at preceding financial year end 31/07/2018 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	197,504	211,032
Deferred tax assets	3,417	3,229
	<u>200,921</u>	<u>214,261</u>
Current assets		
Inventories	7,748	9,263
Trade and other receivables	68,679	77,341
Prepayments	4,869	5,627
Investment securities held for trading	6,846	9,647
Tax recoverables	492	1,163
Cash and short-term deposits	189,318	177,573
	<u>277,952</u>	<u>280,614</u>
Total assets	<u>478,873</u>	<u>494,875</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	17,654	15,935
Retained earnings	297,428	296,894
Total equity	<u>358,760</u>	<u>356,507</u>
Non-current liabilities		
Obligations under finance leases	1,257	2,057
Bank loans	26,699	44,980
Defined benefit liabilities	3,533	3,358
Deferred tax liabilities	2,640	3,019
	<u>34,129</u>	<u>53,414</u>
Current liabilities		
Trade and other payables	34,958	37,015
Obligations under finance leases	3,984	4,494
Bank loans	46,682	43,386
Income tax payable	360	59
	<u>85,984</u>	<u>84,954</u>
Total liabilities	<u>120,113</u>	<u>138,368</u>
Total equity and liabilities	<u>478,873</u>	<u>494,875</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.34</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 JANUARY 2019**

	< ----- 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						
As at 1 August 2018	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	-	-	-	-	3,115	3,115
Other comprehensive income for the period	-	1,719	-	-	-	1,719
Transaction with owners						
Dividends on ordinary shares	-	-	-	-	(2,581)	(2,581)
As at 31 January 2019	43,678	10,785	4,629	2,240	297,428	358,760

	< ----- 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						
As at 1 August 2017	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	-	-	-	-	22,552	22,552
Other comprehensive income for the period	-	(1,873)	-	-	-	(1,873)
Transactions with owners						
Dividends on ordinary shares	-	-	-	-	(2,581)	(2,581)
As at 31 January 2018	43,678	11,215	4,629	2,240	285,475	347,237

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 JANUARY 2019

	Current year to date 31/01/2019 RM'000	Preceding year corresponding year to date 31/01/2018 RM'000
OPERATING ACTIVITIES		
Profit before tax	5,440	26,476
Adjustments for:		
Depreciation of property, plant and equipment	39,025	38,847
Plant and equipment written off	1	-
Gain on disposal of property, plant and equipment	-	(68)
Write-down of inventories	113	76
Loss on disposal of investment securities held for trading	98	-
Net fair value loss/(gain) on investment securities held for trading	984	(606)
Unrealised exchange gain	(53)	(29)
Dividend income	(66)	(46)
Interest income	(2,919)	(1,493)
Finance costs	2,259	1,828
Operating cash flows before changes in working capital	44,882	64,985
Decrease/(increase) in inventories	1,402	(1,504)
Decrease/(increase) in prepayments and receivables	9,972	(1,089)
Decrease in payables	(4,188)	(33,648)
Cash flows from operations	52,068	28,744
Income taxes paid	(1,838)	(2,511)
Interest paid	(2,304)	(1,828)
Interest received	2,762	1,493
Net cash flows from operating activities	50,688	25,898
INVESTING ACTIVITIES		
(Increase)/decrease in short-term deposits with maturity more than three months	(53)	18,606
Purchase of investment securities held for trading	(579)	(544)
Proceeds from disposal of investment securities held for trading	2,298	-
Dividend income	66	46
Purchase of property, plant and equipment	(17,236)	(27,667)
Proceeds from disposal of property, plant and equipment	-	68
Net cash flows used in investing activities	(15,504)	(9,491)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(3,094)	(1,992)
Repayment of bank loans	(26,335)	(21,696)
Proceeds from bank loans	10,972	38,092
Dividend paid on ordinary shares	(5,377)	(2,796)
Net cash flows (used in)/from financing activities	(23,834)	11,608
Net increase in cash and cash equivalents	11,350	28,015
Effect of exchange rate changes on cash and cash equivalents	342	(857)
Cash and cash equivalents at beginning of the year	74,716	81,441
Cash and cash equivalents at end of the period	86,408	108,599

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Cash and cash equivalents comprised the following:

	Current year to date 31/01/2019 RM'000	Preceding year corresponding year to date 31/01/2018 RM'000
Cash at banks and on hand	42,583	33,367
Deposits with licensed banks	146,735	102,761
Cash and short-term deposits	189,318	136,128
Less: Short-term deposits with maturity more than three months	(102,910)	(27,529)
Cash and cash equivalents	86,408	108,599

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.

8. Dividends

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/01/2019</u>	<u>31/01/2018</u>
	<u>RM'000</u>	<u>RM'000</u>
Recognised during the financial year to date		
Final tax exempt dividend for 2018 at 6 sen (2017: 6 sen) per ordinary share, was paid on 13 February 2019	2,581	2,581

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 RM24,684,000, 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>31/01/2019</u>	<u>31/01/2018</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	5,288	6,378
Dividends paid to holding company	1,250	1,250
Sale of equipment to related company	2,624	-
Purchases of equipment and consumables from related companies	124	3,464

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 RM5,411,000 as at 31 January 2019.

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
	31/01/2019	31/01/2018	31/01/2019	31/01/2018
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	61	43	113	76
Plant and equipment written off	-	-	1	-
Loss on disposal of investment securities held for trading	-	-	98	-
Net fair value loss on investment securities held for trading	678	-	984	-
Net foreign exchange loss	-	-	27	-
And crediting:				
Net gain on disposal of property, plant and equipment	-	68	-	68
Net fair value gain on investment securities held for trading	-	21	-	606
Net foreign exchange gain	79	149	-	242

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 11% or RM10.4 million, from RM91.5 million in the preceding year's second quarter, to RM81.1 million for the current quarter ended 31 January 2019 ("2QFY2019"). This was attributed to lower demand for burn-in and testing services, offset by higher revenue from rendering of electronic manufacturing service ("EMS") to new customers.

Interest income increased by 78% or RM0.6 million, following higher placements of short-term deposits.

Other income reduced by 78% or RM0.8 million, mainly due to lower gain on disposal of machinery spares of RM0.3 million and absence of government grant of RM0.3 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 59% or RM5.3 million, from RM9.0 million to RM14.4 million, to support the increased EMS revenue from new customers.

Employee benefits expense decreased by 12% or RM3.3 million, following the alignment of staff costs to operational requirements.

Other expenses were lower by 5% or RM1.2 million, mainly attributable to lower management fees by RM0.8 million and lower repairs and maintenance by RM0.7 million resulting from lower revenue from burn-in and testing services.

Consequently, the Group's profit before tax reduced by 87% or RM11.4 million, from RM13.0 million to RM1.6 million in 2QFY2019.

Analysis of the performance for the current financial year to date

The Group's revenue was lower by 11% or RM19.5 million, from RM182.2 million in the preceding year's corresponding period to RM162.7 million for the current financial period ended 31 January 2019, largely as a result of lower demand for burn-in and testing services.

Interest income was higher by RM1.4 million, following higher placements of short-term deposits.

Other income was lower by 88% or RM2.1 million, mainly due to absences of (i) a fair value gain on investment securities held for trading of RM0.6 million; (ii) net exchange gain of RM0.2 million (iii) government grant of RM0.3 million; and (iv) lower gain on disposal of machinery spares by RM0.7 million;

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 36% or RM6.1 million, from RM17.0 million to RM23.1 million, to support the increased EMS revenue from new customers.

Employee benefits expense decreased by 9% or RM5.4 million, following the alignment of staff costs to operational requirements.

Consequently, the Group's profit before tax was lower by 79% or RM21.0 million, from RM26.5 million to RM5.4 million in the reporting period under review.

Analysis of financial position

Property, plant and equipment ("PPE") was lower by 6% or RM13.5 million, from RM211.0 million as at 31 July 2018 ("FY2018") to RM197.5 million as at 31 January 2019. The decrease in PPE was primarily due to depreciation charge of RM39.0 million, offset by capital expenditure of RM24.7 million.

Inventories reduced by 16% or RM1.5 million, from RM9.3 million to RM7.7 million, following delivery of finished goods.

Trade and other receivables reduced by 11% or RM8.7 million, from RM77.3 million to RM68.7 million, mainly due to lower trade receivables as a result of lower revenue in 2QFY2019.

Investment securities held for trading decreased by 29% or RM2.8 million, from RM9.6 million to RM6.8 million, following a disposal of quoted equity shares of RM2.4 million.

Cash and short-term deposits improved by 7% or RM11.7 million, from RM177.6 million to RM189.3 million, which represented the net surplus cash generated from operations.

Trade and other payables decreased by 6% or RM2.1 million, from RM37.0 million to RM35.0 million, mainly due to lower dividend payable by RM2.8 million.

The Group's loans and borrowings were lower by 17% or RM16.3 million, from RM94.9 million to RM78.6 million, primarily due to repayments of RM29.4 million, offset by additional borrowings of RM12.8 million 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 RM1.6 million for 2QFY2019, compared to RM3.8 million in the preceding quarter ended 31 October 2018.

The decrease in profit before tax of RM2.2 million was mainly due to a reduction in net revenue¹ of RM6.1 million; offset by a decrease in employee benefits expense of RM3.4 million.

20. Prospects

World-wide semiconductor revenue is estimated to reach USD476.7 billion in 2018, representing an increase of 13.4% from USD420.4 billion in 2017. According to a research house, a slowdown in 2019 is expected, on the back of a downturn in the memory market, coupled with the negative effects of tariff increases enacted in the United States and China, and increasing uncertainty about the global economy.

The global economy for 2019 is projected to grow at 3.5%, representing 0.2% lower than 2018.

The broad indices of the semiconductor industry and the global growth are pointed towards a softening momentum.

Despite the weaker performance due to tighter inventory control measures instituted by customers, the Group remains well positioned to weather through the momentary market softening.

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

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	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/01/2019	31/01/2018	31/01/2019	31/01/2018
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,391	1,848	2,810	3,875
Deferred tax				
- Relating to origination and reversal of temporary differences	(221)	(3)	(485)	49
	<u>1,170</u>	<u>1,845</u>	<u>2,325</u>	<u>3,924</u>

The effective tax rate for the current quarter and financial year to date were higher than the statutory tax rate, as certain deferred tax assets were not recognized on unutilised business losses and 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 31/01/2019	As at 31/07/2018
	RM'000	RM'000
(a) Obligations under finance leases - secured	5,241	6,551
Bank loans*	73,381	88,366
	<u>78,622</u>	<u>94,917</u>
(b) Repayable within 12 months	50,666	47,880
Repayable after 12 months	27,956	47,037
	<u>78,622</u>	<u>94,917</u>
(c) Total loans and borrowings denominated in:		
Renminbi	15,700	12,221
Ringgit Malaysia	62,922	82,696
	<u>78,622</u>	<u>94,917</u>

* Included in the bank loans were secured term loans of RM15,700,000 (31/07/2018: RM12,221,000).

25. Changes in material litigation

Further to the announcement made on 22 November 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 reporting period.

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/01/2019	31/01/2018	31/01/2019	31/01/2018
Profit net of tax (RM'000)	474	11,177	3,115	22,552
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>1.1</u>	<u>26.0</u>	<u>7.2</u>	<u>52.4</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: 12 March 2019

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE SECOND QUARTER ENDED 31 JANUARY 2019

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/01/2019) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2018) RM'000	CURRENT YEAR TO DATE (31/01/2019) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2018) RM'000
1.	Revenue	81,105	91,473	162,663	182,184
2.	Profit before tax	1,644	13,022	5,440	26,476
3.	Profit for the period	474	11,177	3,115	22,552
4.	Profit attributable to ordinary equity holders of the Company	474	11,177	3,115	22,552
5.	Basic earnings per share (sen)	1.1	26.0	7.2	52.4
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)	8.3404	8.2881

ADDITIONAL INFORMATION

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/01/2019) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2018) RM'000	CURRENT YEAR TO DATE (31/01/2019) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2018) RM'000
1.	Gross interest income	1,462	822	2,919	1,493
2.	Gross interest expense	1,084	991	2,259	1,828