

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FOURTH QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JULY 2019**

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

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

| | Individual period | | | Cumulative period | | |
|--|------------------------|--------------------------|-------------|------------------------|-------------------------------|-------------|
| | Current year | Preceding year | % Change | Current year | Preceding year | % Change |
| | quarter | corresponding quarter | | to date | corresponding year to date | |
| | (31/07/2019) RM'000 | (31/07/2018) RM'000 | | (31/07/2019) RM'000 | (31/07/2018) RM'000 | |
| Revenue | 70,909 | 85,265 | (17%) | 307,375 | 349,777 | (12%) |
| Other items of income | | | | | | |
| Interest income | 1,642 | 1,316 | 25% | 5,926 | 3,749 | 58% |
| Dividend income | 86 | 95 | (9%) | 172 | 186 | (8%) |
| Other income | 835 | 1,612 | (48%) | 2,599 | 3,082 | (16%) |
| Items of expenses | | | | | | |
| Raw materials and consumables used | (6,500) | (7,869) | (17%) | (41,496) | (31,986) | 30% |
| Changes in inventories of finished goods and work-in-progress | (721) | 362 | NM | (1,014) | 327 | NM |
| Employee benefits expense | (25,700) | (27,838) | (8%) | (103,587) | (112,815) | (8%) |
| Depreciation of property, plant and equipment | (16,893) | (19,801) | (15%) | (74,894) | (78,361) | (4%) |
| Finance costs | (817) | (1,254) | (35%) | (4,089) | (4,099) | (0%) |
| Other expenses | (20,367) | (21,913) | (7%) | (81,484) | (86,174) | (5%) |
| Profit before tax | 2,474 | 9,975 | (75%) | 9,508 | 43,686 | (78%) |
| Income tax (expense)/credit | (183) | 1,341 | NM | (3,232) | (4,348) | (26%) |
| Profit, net of tax | 2,291 | 11,316 | (80%) | 6,276 | 39,338 | (84%) |
| Other comprehensive income: | | | | | | |
| Item that will not be reclassified to profit or loss | | | | | | |
| Remeasurement (loss)/gain arising from defined benefit liabilities, net of tax | (236) | 10 | NM | (236) | 10 | NM |
| Item to be reclassified subsequently to profit or loss | | | | | | |
| Foreign currency translation (loss)/gain | (528) | (2,162) | (76%) | 469 | (4,022) | NM |
| Other comprehensive income for the period, net of tax | (764) | (2,152) | (64%) | 233 | (4,012) | NM |
| Total comprehensive income for the period, net of tax | 1,527 | 9,164 | (83%) | 6,509 | 35,326 | (82%) |
| Earnings per share attributable to owners of the Company (sen): | | | | | | |
| - Basic | 5.3 | 26.3 | (80%) | 14.6 | 91.5 | (84%) |

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
(Incorporated in Malaysia)

Company No : 13022-A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 JULY 2019

| | <u>As at end of current quarter 31/07/2019</u> | <u>As at 31/07/2018 (Restated)</u> | <u>As at 01/08/2017 (Restated)</u> |
|---|--|--|--|
| | RM'000 | RM'000 | RM'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 164,848 | 211,032 | 242,873 |
| Deferred tax assets | 3,692 | 3,229 | 786 |
| | <u>168,540</u> | <u>214,261</u> | <u>243,659</u> |
| Current assets | | | |
| Inventories | 7,407 | 9,263 | 7,151 |
| Trade and other receivables | 65,925 | 77,341 | 82,680 |
| Prepayments | 2,714 | 5,627 | 6,718 |
| Investment securities | 6,688 | 9,647 | 8,046 |
| Tax recoverable | 1,267 | 1,163 | 437 |
| Cash and short-term deposits | 200,005 | 177,573 | 127,576 |
| | <u>284,006</u> | <u>280,614</u> | <u>232,608</u> |
| Total assets | <u>452,546</u> | <u>494,875</u> | <u>476,267</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 43,678 | 43,678 | 43,678 |
| Other reserves | 16,404 | 15,935 | 19,957 |
| Retained earnings | 299,063 | 296,894 | 265,504 |
| Total equity | <u>359,145</u> | <u>356,507</u> | <u>329,139</u> |
| Non-current liabilities | | | |
| Obligations under finance leases | 516 | 2,057 | 2,102 |
| Bank loans | 14,935 | 44,980 | 35,502 |
| Defined benefit liabilities | 3,939 | 3,358 | 3,038 |
| Deferred tax liabilities | 3,324 | 3,019 | - |
| | <u>22,714</u> | <u>53,414</u> | <u>40,642</u> |
| Current liabilities | | | |
| Trade and other payables | 24,318 | 35,807 | 73,525 |
| Contract liabilities | 525 | 1,208 | 1,061 |
| Obligations under finance leases | 3,411 | 4,494 | 3,983 |
| Bank loans | 42,433 | 43,386 | 27,892 |
| Income tax payable | - | 59 | 25 |
| | <u>70,687</u> | <u>84,954</u> | <u>106,486</u> |
| Total liabilities | <u>93,401</u> | <u>138,368</u> | <u>147,128</u> |
| Total equity and liabilities | <u>452,546</u> | <u>494,875</u> | <u>476,267</u> |
| Net assets per share attributable to owners of the Company (RM) | <u>8.35</u> | <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 2018 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 JULY 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 | | | | | | |
| | 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 year | - | - | - | - | 6,276 | 6,276 |
| Other comprehensive income for the year | - | 469 | - | - | (236) | 233 |
| Transaction with owners | | | | | | |
| Dividends on ordinary shares | - | - | - | - | (3,871) | (3,871) |
| As at 31 July 2019 | 43,678 | 9,535 | 4,629 | 2,240 | 299,063 | 359,145 |

| | < ----- 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 year | - | - | - | - | 39,338 | 39,338 |
| Other comprehensive income for the year | - | (4,022) | - | - | 10 | (4,012) |
| Transactions 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 |

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.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 JULY 2019

| | Current year to date 31/07/2019 RM'000 | Preceding year corresponding year to date 31/07/2018 RM'000 |
|--|---|--|
| OPERATING ACTIVITIES | | |
| Profit before tax | 9,508 | 43,686 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 74,894 | 78,361 |
| Plant and equipment written off | 2 | 6 |
| Net gain on disposal of property, plant and equipment | (1,860) | (104) |
| Write-off of inventories | 174 | 69 |
| Net loss on disposal of investment securities | 94 | - |
| Net fair value loss/(gain) on investment securities | 1,071 | (937) |
| Unrealised exchange gain | (57) | (70) |
| Dividend income | (172) | (186) |
| Interest income | (5,926) | (3,749) |
| Finance costs | 4,089 | 4,099 |
| Operating cash flows before changes in working capital | 81,817 | 121,175 |
| Decrease/(increase) in inventories | 1,682 | (2,181) |
| Decrease in prepayments and receivables | 14,648 | 6,033 |
| Decrease in payables and contract liabilities | (8,098) | (41,786) |
| Cash flows from operations | 90,049 | 83,241 |
| Income taxes paid | (3,533) | (4,582) |
| Interest paid | (4,135) | (3,752) |
| Interest received | 5,716 | 3,040 |
| Net cash flows from operating activities | 88,097 | 77,947 |
| INVESTING ACTIVITIES | | |
| Increase in short-term deposits with maturity more than three months | (20,769) | (56,722) |
| Purchase of investment securities | (2,091) | (1,690) |
| Proceeds from disposal of investment securities | 3,885 | 1,026 |
| Dividend income | 172 | 186 |
| Purchase of property, plant and equipment | (25,835) | (41,516) |
| Proceeds from disposal of property, plant and equipment | 2,518 | 134 |
| Net cash flows used in investing activities | (42,120) | (98,582) |
| FINANCING ACTIVITIES | | |
| Repayment of obligations under finance leases | (5,364) | (4,591) |
| Repayment of bank loans | (76,910) | (43,589) |
| Proceeds from bank loans | 45,822 | 68,904 |
| Dividend paid on ordinary shares | (7,958) | (5,377) |
| Net cash flows (used in)/from financing activities | (44,410) | 15,347 |
| Net increase/(decrease) in cash and cash equivalents | 1,567 | (5,288) |
| Effect of exchange rate changes on cash and cash equivalents | 96 | (1,437) |
| Cash and cash equivalents at beginning of the year | 74,716 | 81,441 |
| Cash and cash equivalents at end of the year | 76,379 | 74,716 |

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

Cash and cash equivalents comprised the following:

| | Current year to date 31/07/2019 RM'000 | Preceding year corresponding year to date 31/07/2018 RM'000 |
|--|---|--|
| Cash at banks and on hand | 29,247 | 23,220 |
| Deposits with licensed banks | 170,758 | 154,353 |
| Cash and short-term deposits | 200,005 | 177,573 |
| Less: Short-term deposits with maturity more than three months | (123,626) | (102,857) |
| Cash and cash equivalents | 76,379 | 74,716 |

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 financial 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 financial 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.

Upon adoption of MFRS 15 Revenue from Contracts with Customers, the Group’s condensed consolidated statement of financial position as at 31 July 2018 and 1 August 2017 were restated, resulting in recognition of contract liabilities of RM1,208,000 and RM1,061,000 respectively, and decrease in trade and other payables of RM1,208,000 and RM1,061,000 respectively.

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.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

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.

8. Dividends

| | <u>Current year to date</u> | <u>Preceding year corresponding year to date</u> |
|--|---------------------------------|--|
| | <u>31/07/2019</u> | <u>31/07/2018</u> |
| | <u>RM'000</u> | <u>RM'000</u> |
| Recognised during the financial year | | |
| 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 |
| Interim tax exempt dividend for 2019 at 3 sen (2018: 12.5 sen) per ordinary share, was paid on 27 August 2019 | 1,290 | 5,377 |
| | <u>3,871</u> | <u>7,958</u> |
| Proposed but not recognised as a liability as at 31 July | | |
| Final tax exempt dividend for 2019 at 6 sen (2018: 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 RM29,088,000, and disposed (including write-off) plant and equipment of net book value amounting to RM660,000.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

12. Significant related party transactions

| | <u>Current year to date</u> | <u>Preceding year corresponding year to date</u> |
|---|---------------------------------|--|
| | <u>31/07/2019</u> | <u>31/07/2018</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 | 8,949 | 11,525 |
| Dividends paid/payable to holding company | 1,874 | 3,853 |
| Sale of equipment to a related company | 2,636 | - |
| Purchases of equipment and consumables from related companies | 251 | 4,681 |

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 RM5,418,000 as at 31 July 2019.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

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 |
| | 31/07/2019 | 31/07/2018 | 31/07/2019 | 31/07/2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Profit before tax is arrived at: | | | | |
| After charging: | | | | |
| Write-off of inventories | 49 | - | 174 | 69 |
| Plant and equipment written off | - | 6 | 2 | 6 |
| Net loss on disposal of investment securities | - | - | 94 | - |
| Net fair value loss on investment securities | 396 | - | 1,071 | - |
| Net foreign exchange loss | 8 | - | - | - |
| Settlement of litigation | 1,660 | - | 1,660 | - |
| And crediting: | | | | |
| Write-back of inventories | - | 24 | - | - |
| Net gain on disposal of property, plant and equipment | 516 | 27 | 1,860 | 104 |
| Net gain on disposal of investment securities | 4 | - | - | - |
| Net fair value gain on investment securities | - | 1,378 | - | 937 |
| Net foreign exchange gain | - | 72 | 6 | 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 was lower by 17% or RM14.4 million, from RM85.3 million in the preceding year's fourth quarter, to RM70.9 million for the current quarter ended 31 July 2019 ("4QFY2019"). This was attributed to lower demand for burn-in, testing and electronic manufacturing services ("EMS").

Interest income was higher by 25% or RM0.3 million, following higher placements of short-term deposits.

Other income reduced by 48% or RM0.8 million; mainly due to an absence of fair value gain on investment securities of RM1.4 million partially offset by a higher gain on disposal of machinery and test equipment of RM0.5 million.

Employee benefits expense decreased by 8% or RM2.1 million, following lower compensation due to lower production.

Depreciation was lower by 15% or RM2.9 million as certain machinery and test equipment were fully depreciated.

Finance costs reduced by 35% or RM0.4 million, following repayments of loans and borrowings.

Other expenses were lower by 7% or RM1.5 million, mainly attributable to (i) lower repairs and maintenance cost by RM2.0 million; (ii) lower management fees by RM1.3 million; partially offset by (iii) the final settlement of litigation expenses of RM1.7 million.

Consequently, the Group's profit before tax reduced by 75% or RM7.5 million, from RM10.0 million to RM2.5 million in 4QFY2019.

Analysis of the performance for the current financial year

The Group's revenue decreased by 12% or RM42.4 million, from RM349.8 million in the preceding year's corresponding year to RM307.4 million for the current financial year ended 31 July 2019, largely as a result of lower demand for burn-in and testing services, partially offset by higher revenue from EMS.

Interest income was higher by 58% or RM2.2 million, following higher placements of short-term deposits during the current financial year.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 34% or RM10.9 million, from RM31.7 million to RM42.5 million, to support the increased EMS revenue from new customers.

Employee benefits expense decreased by 8% or RM9.2 million, following lower compensation due to lower production.

Depreciation was lower by 4% or RM3.5 million as certain machinery and test equipment were fully depreciated during the current financial year.

Other expenses were lower by 5% or RM4.7 million, mainly attributable to (i) lower repairs and maintenance cost by RM4.6 million; (ii) lower management fees by RM2.6 million; partially offset by (iii) the final settlement of litigation expenses of RM1.7 million; and (iv) a net fair value loss on investment securities of RM1.1 million.

Consequently, the Group's profit before tax decreased by 78% or RM34.2 million, from RM43.7 million to RM9.5 million in the current financial year.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

Analysis of financial position

Property, plant and equipment (“PPE”) was lower by 22% or RM46.2 million, from RM211.0 million as at 31 July 2018 to RM164.8 million as at 31 July 2019. The decrease in PPE was primarily due to depreciation charge of RM74.9 million, partially offset by additional capital expenditure of RM29.1 million.

Inventories reduced by 20% or RM1.9 million, from RM9.3 million to RM7.4 million, following delivery of finished goods.

Trade and other receivables were lower by 15% or RM11.4 million, from RM77.3 million to RM65.9 million, mainly due to lower trade receivables as a result of lower revenue in 4QFY2019.

Prepayments reduced by 52% or RM2.9 million, from RM5.6 million to RM2.7 million, mainly attributable to lower down-payments made on purchases of machinery and test equipment.

Investment securities decreased by 31% or RM3.0 million, from RM9.6 million to RM6.7 million, reflecting a net disposal of quoted equity shares of RM1.9 million, and a net fair value loss of RM1.1 million.

Cash and short-term deposits improved by 13% or RM22.4 million, from RM177.6 million to RM200.0 million, which represented the net surplus cash generated from operations.

Trade and other payables decreased by 32% or RM11.5 million, from RM35.8 million to RM24.3 million, mainly due to lower dividend payable by RM4.1 million, lower sundry payables by RM2.5 million and lower accrued operating expenses by RM2.2 million.

The Group’s loans and borrowings reduced by 35% or RM33.6 million, from RM94.9 million to RM61.3 million, primarily due to repayments of RM82.3 million, offset by additional borrowings of RM48.6 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 RM2.5 million for 4QFY2019, compared to RM1.6 million in the preceding quarter ended 30 April 2019. The increase in profit before tax by RM0.9 million was mainly due to (i) increase in net revenue¹ by RM2.1 million; (ii) lower depreciation by RM2.1 million; partially offset by (iii) final settlement of litigation expenses of RM1.7 million; (iv) fair valuation adjustment of RM0.7 million on investment securities, from a gain of RM0.3 million to a loss of RM0.4 million; and (v) lower gain on disposal of machinery and test equipment by RM0.8 million.

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

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

20. Prospects

World-wide semiconductor revenue is estimated to reach USD429 billion in 2019, representing a decline of 9.6% from USD475 billion in 2018. This is mainly due to a softening in the memory market and slower growth in certain end markets such as smartphones and personal computers.

The International Monetary Fund has also revised the 2019 global growth forecast downwards, from the previous projection of 3.3% to 3.2%, according to its recent July report.

The market weakness caused by the series of tariff hikes between the US and China has yet to abate. Barring further escalation of trade wars and major economies slipping into recession, the Group is expecting a progressive recovery in 2020.

The Group remains cautious in capital spending, and will further its staff training and development in automation to drive productivity.

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 |
| | 31/07/2019 | 31/07/2018 | 31/07/2019 | 31/07/2018 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Current income tax | | | | |
| - Malaysian income tax | (312) | (1,767) | 3,397 | 3,820 |
| - (Over)/under provision in prior years | (37) | - | (27) | 70 |
| | <u>(349)</u> | <u>(1,767)</u> | <u>3,370</u> | <u>3,890</u> |
| Deferred tax | | | | |
| - Relating to origination and reversal of temporary differences | 1,458 | 722 | 788 | 754 |
| - Over provision in prior years | (926) | (296) | (926) | (296) |
| | <u>532</u> | <u>426</u> | <u>(138)</u> | <u>458</u> |
| Income tax expense/(credit) | <u>183</u> | <u>(1,341)</u> | <u>3,232</u> | <u>4,348</u> |

The effective tax rate for the current quarter was lower than the statutory tax rate, following a year-end tax review and assessment.

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

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

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

| | <u>As at</u> <u>31/07/2019</u> <u>RM'000</u> | <u>As at</u> <u>31/07/2018</u> <u>RM'000</u> |
|--|--|--|
| (a) Obligations under finance leases - secured | 3,927 | 6,551 |
| Bank loans* | <u>57,368</u> | <u>88,366</u> |
| | <u>61,295</u> | <u>94,917</u> |
| (b) Repayable within 12 months | 45,844 | 47,880 |
| Repayable after 12 months | <u>15,451</u> | <u>47,037</u> |
| | <u>61,295</u> | <u>94,917</u> |
| (c) Total loans and borrowings denominated in: | | |
| Renminbi | 13,256 | 12,221 |
| Ringgit Malaysia | <u>48,039</u> | <u>82,696</u> |
| | <u>61,295</u> | <u>94,917</u> |

* Included in the bank loans were secured term loans of RM13,256,000 (31/07/2018: RM12,221,000).

25. Changes in material litigation

On the arbitration claim by Datamatic, Ltd, now operating under the name of Warranty Debt, Ltd ("WDL") against the Company's subsidiary, KESP Sdn. Bhd. ("KESP") for alleged defective products, the Company released an announcement on 21 June 2019 that following negotiations between parties, KESP had agreed with WDL and the owners of WDL to a settlement and release of claims by all parties where KESP would make a cash payment of USD0.4 million (equivalent of RM1.7 million) to WDL and the Arbitration dismissed ("the Settlement").

Following thereto on 12 July 2019, the arbitration on the claim by WDL had been fully settled and dismissed following the Settlement.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

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>31/07/2019</u> | <u>31/07/2018</u> | <u>31/07/2019</u> | <u>31/07/2018</u> |
| Profit net of tax (RM'000) | 2,291 | 11,316 | 6,276 | 39,338 |
| 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>5.3</u> | <u>26.3</u> | <u>14.6</u> | <u>91.5</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: 19 September 2019

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FOURTH QUARTER ENDED 31 JULY 2019

| | | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|----|---|--|--|--|---|
| | | CURRENT YEAR QUARTER (31/07/2019) RM'000 | PRECEDING YEAR CORRESPONDING QUARTER (31/07/2018) RM'000 | CURRENT YEAR TO DATE (31/07/2019) RM'000 | PRECEDING YEAR CORRESPONDING PERIOD (31/07/2018) RM'000 |
| 1. | Revenue | 70,909 | 85,265 | 307,375 | 349,777 |
| 2. | Profit before tax | 2,474 | 9,975 | 9,508 | 43,686 |
| 3. | Profit for the period | 2,291 | 11,316 | 6,276 | 39,338 |
| 4. | Profit attributable to ordinary equity holders of the Company | 2,291 | 11,316 | 6,276 | 39,338 |
| 5. | Basic earnings per share (sen) | 5.33 | 26.31 | 14.59 | 91.45 |
| 6. | Proposed/Declared dividend per share (sen) | 6.00 | 6.00 | 9.00 | 18.50 |

| | | 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) | 8.3494 | 8.2881 |

ADDITIONAL INFORMATION

| | | INDIVIDUAL QUARTER | | CUMULATIVE QUARTER | |
|----|------------------------|--|--|--|---|
| | | CURRENT YEAR QUARTER (31/07/2019) RM'000 | PRECEDING YEAR CORRESPONDING QUARTER (31/07/2018) RM'000 | CURRENT YEAR TO DATE (31/07/2019) RM'000 | PRECEDING YEAR CORRESPONDING PERIOD (31/07/2018) RM'000 |
| 1. | Gross interest income | 1,642 | 1,316 | 5,926 | 3,749 |
| 2. | Gross interest expense | 817 | 1,254 | 4,089 | 4,099 |