

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

Company No : 197201001376 (13022-A)

**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS  
FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2019**

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

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

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding quarter		to date	corresponding year to date	
	(31/10/2019) RM'000	(31/10/2018) RM'000		(31/10/2019) RM'000	(31/10/2018) RM'000	
<b>Revenue</b>	72,389	81,558	(11%)	72,389	81,558	(11%)
<b>Other items of income</b>						
Interest income	1,567	1,457	8%	1,567	1,457	8%
Dividend income	36	20	80%	36	20	80%
Other income	1,836	146	NM	1,836	146	NM
<b>Items of expenses</b>						
Raw materials and consumables used	(5,968)	(9,431)	(37%)	(5,968)	(9,431)	(37%)
Changes in inventories of finished goods and work-in-progress	(256)	676	NM	(256)	676	NM
Employee benefits expense	(26,530)	(28,236)	(6%)	(26,530)	(28,236)	(6%)
Depreciation of property, plant and equipment	(16,664)	(19,550)	(15%)	(16,664)	(19,550)	(15%)
Depreciation of right-of-use assets	(401)	-	NM	(401)	-	NM
Finance costs	(791)	(1,175)	(33%)	(791)	(1,175)	(33%)
Other expenses	(19,074)	(21,669)	(12%)	(19,074)	(21,669)	(12%)
<b>Profit before tax</b>	6,144	3,796	62%	6,144	3,796	62%
Income tax expense	(1,616)	(1,155)	40%	(1,616)	(1,155)	40%
<b>Profit, net of tax</b>	4,528	2,641	71%	4,528	2,641	71%
<b>Other comprehensive income:</b>						
<b>Item to be reclassified subsequently to profit or loss</b>						
Foreign currency translation (loss)/gain	(413)	812	NM	(413)	812	NM
<b>Total comprehensive income for the period, net of tax</b>	4,115	3,453	19%	4,115	3,453	19%
Earnings per share attributable to owners of the Company (sen):						
- Basic	10.5	6.1	72%	10.5	6.1	72%

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 2019 and the accompanying explanatory notes attached to the interim financial statements.

**KESM INDUSTRIES BERHAD**  
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Company No : 197201001376 (13022-A)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2019**

	As at end of current quarter 31/10/2019 RM'000	As at preceding financial year end 31/07/2019 RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	153,346	164,848
Right-of-use assets	5,416	-
Deferred tax assets	3,589	3,692
	<u>162,351</u>	<u>168,540</u>
<b>Current assets</b>		
Inventories	6,781	7,407
Trade and other receivables	64,382	65,925
Prepayments	3,577	2,714
Investment securities	7,226	6,688
Tax recoverable	437	1,267
Cash and short-term deposits	208,854	200,005
	<u>291,257</u>	<u>284,006</u>
<b>Total assets</b>	<u>453,608</u>	<u>452,546</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	43,678	43,678
Other reserves	15,991	16,404
Retained earnings	303,591	299,063
<b>Total equity</b>	<u>363,260</u>	<u>359,145</u>
<b>Non-current liabilities</b>		
Loans and borrowings	13,382	15,451
Defined benefit liabilities	4,026	3,939
Deferred tax liabilities	3,655	3,324
	<u>21,063</u>	<u>22,714</u>
<b>Current liabilities</b>		
Trade and other payables	26,024	24,318
Contract liabilities	465	525
Loans and borrowings	41,856	45,844
Income tax payable	940	-
	<u>69,285</u>	<u>70,687</u>
<b>Total liabilities</b>	<u>90,348</u>	<u>93,401</u>
<b>Total equity and liabilities</b>	<u>453,608</u>	<u>452,546</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.45</u>	<u>8.35</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 2019 and the accompanying explanatory notes attached to the interim financial statements.

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

Company No : 197201001376 (13022-A)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 31 OCTOBER 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	
<b>FY2020</b>						
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>As at 1 August 2019</b>	43,678	9,535	4,629	2,240	299,063	359,145
Profit for the period	-	-	-	-	4,528	4,528
Other comprehensive income for the period	-	(413)	-	-	-	(413)
<b>As at 31 October 2019</b>	43,678	9,122	4,629	2,240	303,591	363,260

	< ----- Attributable to owners of the Company ----- >					Total equity
	< ----- Non-distributable ----- >				Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
<b>FY2019</b>						
	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>	<b>RM'000</b>
<b>As at 1 August 2018</b>	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
<b>As at 31 October 2018</b>	43,678	9,878	4,629	2,240	299,535	359,960

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 2019 and the accompanying explanatory notes attached to the interim financial statements.

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

Company No : 197201001376 (13022-A)

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

	<b>Current year to date 31/10/2019 RM'000</b>	<b>Preceding year corresponding year to date 31/10/2018 RM'000</b>
<b>OPERATING ACTIVITIES</b>		
Profit before tax	6,144	3,796
Adjustments for:		
Depreciation of property, plant and equipment	16,664	19,550
Depreciation of right-of-use assets	401	-
Plant and equipment written off	-	1
Net gain on disposal of property, plant and equipment	(1,639)	-
Write-down of inventories	15	52
Net loss on disposal of investment securities	-	98
Net fair value (gain)/loss on investment securities	(64)	306
Unrealised exchange loss/(gain)	47	(12)
Dividend income	(36)	(20)
Interest income	(1,567)	(1,457)
Finance costs	791	1,175
<b>Operating cash flows before changes in working capital</b>	<b>20,756</b>	<b>23,489</b>
Decrease/(increase) in inventories	611	(427)
Decrease in prepayments and receivables	527	3,681
Increase in payables and contract liabilities	2,026	328
<b>Cash flows from operations</b>	<b>23,920</b>	<b>27,071</b>
Net income taxes received/(paid)	570	(938)
Interest paid	(759)	(1,215)
Interest received	1,729	1,452
<b>Net cash flows from operating activities</b>	<b>25,460</b>	<b>26,370</b>
<b>INVESTING ACTIVITIES</b>		
Decrease/(increase) in short-term deposits with maturity more than three months	3,935	(8,846)
Purchase of investment securities	(474)	(568)
Proceeds from disposal of investment securities	-	2,298
Dividend income	36	20
Purchase of property, plant and equipment	(3,026)	(5,943)
Proceeds from disposal of property, plant and equipment	1,660	-
<b>Net cash flows from/(used in) investing activities</b>	<b>2,131</b>	<b>(13,039)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of leases	(1,515)	(1,589)
Repayment of bank loans	(13,381)	(12,237)
Proceeds from bank loans	1,536	4,696
Dividend paid on ordinary shares	(1,290)	(5,377)
<b>Net cash flows used in financing activities</b>	<b>(14,650)</b>	<b>(14,507)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12,941</b>	<b>(1,176)</b>
Effect of exchange rate changes on cash and cash equivalents	(157)	212
Cash and cash equivalents at beginning of the year	76,379	74,716
<b>Cash and cash equivalents at end of the period</b>	<b>89,163</b>	<b>73,752</b>

**KESM INDUSTRIES BERHAD**  
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Company No : 197201001376 (13022-A)

Cash and cash equivalents comprised the following:

	<b>Current year to date 31/10/2019 RM'000</b>	<b>Preceding year corresponding year to date 31/10/2018 RM'000</b>
Cash at banks and on hand	32,861	28,097
Deposits with licensed banks	175,993	157,358
Cash and short-term deposits	208,854	185,455
Less: Short-term deposits with maturity more than three months	(119,691)	(111,703)
Cash and cash equivalents	<b>89,163</b>	<b>73,752</b>

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2019 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 2019. 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 2019.

### **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 2019 except that on 1 August 2019, the Group adopted the MFRSs, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2019 which are applicable to the Group, including MFRS 16 Leases. 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, except as discussed below.

The Group adopted MFRS 16 Leases on 1 August 2019 using simplified transition approach and did not restate comparative amounts for the financial year ended 31 July 2019 as permitted under the specific transition provisions in the standard. Upon adoption of MFRS 16 Leases, the Group recognised right-of-use assets of RM5,821,000 and lease liabilities of RM5,821,000 on 1 August 2019.

### **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.

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

Company No : 197201001376 (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 reporting period.

**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 RM5,411,000, and disposed (including write-off) property, plant and equipment of net book value amounting to RM21,000.

**12. Significant related party transactions**

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/10/2019</u>	<u>31/10/2018</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	2,341	2,691
Purchases of equipment and consumables from related companies	605	72

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 RM911,000 as at 31 October 2019.

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

Company No : 197201001376 (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
	31/10/2019	31/10/2018	31/10/2019	31/10/2018
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	15	52	15	52
Plant and equipment written off	-	1	-	1
Net loss on disposal of investment securities	-	98	-	98
Net fair value loss on investment securities	-	306	-	306
Net foreign exchange loss	-	106	-	106
And crediting:				
Net gain on disposal of property, plant and equipment	1,639	-	1,639	-
Net fair value gain on investment securities	64	-	64	-
Net foreign exchange gain	90	-	90	-

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.



**KESM INDUSTRIES BERHAD**  
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Company No : 197201001376 (13022-A)

**18. Detailed analysis of Group performance**

Analysis of the performance for the current quarter

The Group's revenue was lower by 11% or RM9.2 million, from RM81.6 million in the preceding year's first quarter, to RM72.4 million for the current quarter ended 31 October 2019 ("1QFY2020"). This was attributed to lower demand for burn-in, testing and electronic manufacturing services ("EMS").

Other income was higher by RM1.7 million, mainly due to gain on disposal of property of RM1.6 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress reduced by 29% or RM2.5 million, attributed to lower demand for EMS.

Employee benefits expense decreased by 6% or RM1.7 million, following lower headcount.

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

Finance costs reduced by 33% or RM0.4 million, following repayments of loans and borrowings.

Other expenses were lower by 12% or RM2.6 million, mainly attributable to (i) lower repairs and maintenance and utilities costs by RM0.5 million and RM0.4 million respectively, following lower production; (ii) lower management fees by RM0.4 million; (iii) absences of fair value loss and loss on disposal of quoted equity shares totaling RM0.4 million; and (iv) lower operating lease expense by RM0.3 million following the adoption of MFRS 16 Leases<sup>1</sup>.

Consequently, the Group's profit before tax improved by 62% or RM2.3 million, from RM3.8 million to RM6.1 million in 1QFY2020.

Analysis of financial position

Property, plant and equipment ("PPE") was lower by 7% or RM11.5 million, from RM164.8 million as at 31 July 2019 to RM153.3 million as at 31 October 2019. The decrease in PPE was primarily due to depreciation charge of RM16.7 million, partially offset by additional capital expenditure of RM5.4 million.

Upon the adoption of MFRS 16 Leases, right-of-use assets of RM5.4 million were recognised, representing the right to use the leased assets during the lease terms.

Trade and other receivables were lower by 2% or RM1.5 million, from RM65.9 million to RM64.4 million, following a reduction in other receivables.

Prepayments increased by 32% or RM0.9 million, from RM2.7 million to RM3.6 million, mainly due to higher prepaid insurance premium, hire purchase instalments and certain operating expenses.

Cash and short-term deposits improved by 4% or RM8.8 million, from RM200.0 million to RM208.9 million, which represented the net surplus cash generated from operations.

Trade and other payables increased by 7% or RM1.7 million, from RM24.3 million to RM26.0 million, mainly due to higher accrued operating expenses by RM2.0 million.

The Group's loans and borrowings reduced by 10% or RM6.1 million, from RM61.3 million to RM55.2 million, primarily due to net repayments of bank loans of RM11.9 million, partially offset by lease liabilities of RM5.5 million.

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<sup>1</sup> A corresponding depreciation of right-of-use assets of RM0.4 million was recognised.

**KESM INDUSTRIES BERHAD**  
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Company No : 197201001376 (13022-A)

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

The Group achieved profit before tax of RM6.1 million for 1QFY2020, compared to RM2.5 million in the preceding quarter ended 31 July 2019. The increase in profit before tax by RM3.7 million was mainly due to (i) an absence of final settlement of litigation expenses of RM1.7 million; (ii) higher gain on disposal of property, plant and equipment of RM1.1 million; and (iii) fair valuation adjustment of RM0.5 million on investment securities, arising from a loss of RM0.4 million to a gain of RM0.1 million.

**20. Prospects**

World-wide semiconductor revenue is estimated to reach USD429 billion in 2019, 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 again, in its October report, revised the 2019 global growth forecast downwards, from the previous projection of 3.2% to 3.0%, reflecting a continual weakening of global economies and lower business confidence.

Amidst the hope for an improved US-China trade agreement, the Group continues to focus on improving factory productivity, automation and aligning capacity to a progressive increase in demand.

**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>31/10/2019</u>	<u>31/10/2018</u>	<u>31/10/2019</u>	<u>31/10/2018</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Current income tax				
- Malaysian income tax	1,200	1,419	1,200	1,419
Deferred tax				
- Relating to origination and reversal of temporary differences	416	(264)	416	(264)
Income tax expense	<u>1,616</u>	<u>1,155</u>	<u>1,616</u>	<u>1,155</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 unutilized business losses and other deductible temporary differences.

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

Company No : 197201001376 (13022-A)

**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 8 January 2020. 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 2019.

**24. Group borrowings and debt securities**

	<u>As at</u> <u>31/10/2019</u> <u>RM'000</u>	<u>As at</u> <u>31/07/2019</u> <u>RM'000</u>
(a) Obligations under finance leases - secured	4,358	3,927
Bank loans*	45,428	57,368
Lease liabilities	5,452	-
	<u>55,238</u>	<u>61,295</u>
(b) Repayable within 12 months	41,856	45,844
Repayable after 12 months	13,382	15,451
	<u>55,238</u>	<u>61,295</u>
(c) Total loans and borrowings denominated in:		
Renminbi	15,610	13,256
Ringgit Malaysia	39,628	48,039
	<u>55,238</u>	<u>61,295</u>

\* Included in the bank loans were secured term loans of RM10,821,000 (31/07/2019: RM13,256,000).

**25. Changes in material litigation**

There was no material litigation as at the date of this announcement.

**KESM INDUSTRIES BERHAD**  
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Company No : 197201001376 (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 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>31/10/2019</u>	<u>31/10/2018</u>	<u>31/10/2019</u>	<u>31/10/2018</u>
Profit net of tax (RM'000)	4,528	2,641	4,528	2,641
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>10.5</u>	<u>6.1</u>	<u>10.5</u>	<u>6.1</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: 20 November 2019

**KESM INDUSTRIES BERHAD**  
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**SUMMARY OF KEY FINANCIAL INFORMATION**  
**FOR THE FIRST QUARTER ENDED 31 OCTOBER 2019**

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/10/2019) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2018) RM'000	CURRENT YEAR TO DATE (31/10/2019) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2018) RM'000
1.	Revenue	72,389	81,558	72,389	81,558
2.	Profit before tax	6,144	3,796	6,144	3,796
3.	Profit for the period	4,528	2,641	4,528	2,641
4.	Profit attributable to ordinary equity holders of the Company	4,528	2,641	4,528	2,641
5.	Basic earnings per share (sen)	10.53	6.14	10.53	6.14
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)	8.4451	8.3494

**ADDITIONAL INFORMATION**

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/10/2019) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2018) RM'000	CURRENT YEAR TO DATE (31/10/2019) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2018) RM'000
1.	Gross interest income	1,567	1,457	1,567	1,457
2.	Gross interest expense	791	1,175	791	1,175