

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2020**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 October 2020.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 OCTOBER 2020**

	Individual period			Cumulative period		
	Current year quarter (31/10/2020) RM'000	Preceding year corresponding quarter (31/10/2019) RM'000	% Change	Current year to date (31/10/2020) RM'000	Preceding year corresponding year to date (31/10/2019) RM'000	% Change
Revenue	61,111	72,389	(16%)	61,111	72,389	(16%)
Other items of income						
Interest income	1,185	1,567	(24%)	1,185	1,567	(24%)
Dividend income	60	36	67%	60	36	67%
Other income	1,486	1,836	(19%)	1,486	1,836	(19%)
Items of expenses						
Raw materials and consumables used	(9,395)	(5,968)	57%	(9,395)	(5,968)	57%
Changes in inventories of finished goods and work-in-progress	(620)	(256)	>100%	(620)	(256)	>100%
Employee benefits expense	(21,773)	(26,530)	(18%)	(21,773)	(26,530)	(18%)
Depreciation of property, plant and equipment	(14,208)	(17,065)	(17%)	(14,208)	(17,065)	(17%)
Finance costs	(262)	(791)	(67%)	(262)	(791)	(67%)
Other expenses	(16,130)	(19,074)	(15%)	(16,130)	(19,074)	(15%)
Profit before tax	1,454	6,144	(76%)	1,454	6,144	(76%)
Income tax expense	(690)	(1,616)	(57%)	(690)	(1,616)	(57%)
Profit, net of tax	764	4,528	(83%)	764	4,528	(83%)
Other comprehensive income:						
Item to be reclassified subsequently to profit or loss						
Foreign currency translation gain/(loss)	295	(413)	NM	295	(413)	NM
Total comprehensive income for the period, net of tax	1,059	4,115	(74%)	1,059	4,115	(74%)
Earnings per share attributable to owners of the Company (sen):						
- Basic	1.8	10.5	(83%)	1.8	10.5	(83%)

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 2020 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2020

	<u>As at end of current quarter 31/10/2020</u> RM'000	<u>As at preceding financial year end 31/07/2020</u> RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	116,514	127,461
Deferred tax assets	3,580	3,513
Other receivables	543	667
	<u>120,637</u>	<u>131,641</u>
Current assets		
Inventories	6,283	6,055
Trade and other receivables	50,731	34,351
Prepayments	2,940	2,419
Investment securities	9,466	8,872
Tax recoverable	1,205	1,053
Cash and short-term deposits	217,371	230,103
	<u>287,996</u>	<u>282,853</u>
Total assets	<u>408,633</u>	<u>414,494</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	17,074	16,779
Retained earnings	296,581	295,817
Total equity	<u>357,333</u>	<u>356,274</u>
Non-current liabilities		
Loans and borrowings	3,692	4,487
Defined benefit liabilities	4,490	4,402
Deferred tax liabilities	790	1,088
	<u>8,972</u>	<u>9,977</u>
Current liabilities		
Trade and other payables	25,956	24,345
Contract liabilities	92	41
Loans and borrowings	14,287	21,078
Income tax payable	1,993	2,779
	<u>42,328</u>	<u>48,243</u>
Total liabilities	<u>51,300</u>	<u>58,220</u>
Total equity and liabilities	<u>408,633</u>	<u>414,494</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.31</u>	<u>8.28</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 2020 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 OCTOBER 2020

	< ----- Attributable to owners of the Company ----- >					Total equity
	< ----- Non-distributable ----- >				Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
FY2021						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2020	43,678	9,910	4,629	2,240	295,817	356,274
Profit for the period	-	-	-	-	764	764
Other comprehensive income for the period	-	295	-	-	-	295
As at 31 October 2020	43,678	10,205	4,629	2,240	296,581	357,333

	< ----- Attributable to owners of the Company ----- >					Total equity
	< ----- Non-distributable ----- >				Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
FY2020						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2019	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)
As at 31 October 2019	43,678	9,122	4,629	2,240	303,591	363,260

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 2020 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 OCTOBER 2020

	Current year to date 31/10/2020	Preceding year corresponding year to date 31/10/2019
	RM'000	RM'000
OPERATING ACTIVITIES		
Profit before tax	1,454	6,144
Adjustments for:		
Depreciation of property, plant and equipment	14,208	17,065
Net gain on disposal of property, plant and equipment	(483)	(1,639)
Write-down of inventories	14	15
Net fair value loss/(gain) on investment securities	456	(64)
Unrealised exchange loss	7	47
Dividend income	(60)	(36)
Interest income	(1,185)	(1,567)
Finance costs	262	791
Operating cash flows before changes in working capital	14,673	20,756
(Increase)/decrease in inventories	(242)	611
(Increase)/decrease in prepayments and receivables	(17,286)	527
Decrease in payables and contract liabilities	1,487	2,026
Cash flows (used in)/from operations	(1,368)	23,920
Income taxes paid, net	(1,979)	570
Interest paid	(292)	(759)
Interest received	1,502	1,729
Net cash flows (used in)/from operating activities	(2,137)	25,460
INVESTING ACTIVITIES		
(Increase)/decrease in short-term deposits with maturity more than three months	(7,306)	3,935
Purchase of investment securities	(1,050)	(474)
Dividend income	60	36
Purchase of property, plant and equipment	(2,128)	(3,026)
Proceeds from disposal of property, plant and equipment	498	1,660
Net cash flows (used in)/from investing activities	(9,926)	2,131
FINANCING ACTIVITIES		
Repayment of principal portion of lease liabilities	(874)	(1,515)
Repayment of bank loans	(6,579)	(13,381)
Proceeds from bank loans	-	1,536
Dividend paid on ordinary shares	(645)	(1,290)
Net cash flows used in financing activities	(8,098)	(14,650)
Net (decrease)/increase in cash and cash equivalents	(20,161)	12,941
Effect of exchange rate changes on cash and cash equivalents	123	(157)
Cash and cash equivalents at beginning of the year	84,694	76,379
Cash and cash equivalents at end of the period	64,656	89,163

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

Cash and cash equivalents comprised the following:

	Current year to date 31/10/2020 RM'000	Preceding year corresponding year to date 31/10/2019 RM'000
Cash at banks and on hand	22,119	32,861
Deposits with licensed banks	195,252	175,993
Cash and short-term deposits	217,371	208,854
Less: Short-term deposits with maturity more than three months	(152,715)	(119,691)
Cash and cash equivalents	64,656	89,163

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2020 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

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 2020. 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 2020.

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 2020 except that on 1 August 2020, the Group adopted the MFRSs, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2020 which are applicable to the Group. 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.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

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

No dividend was declared during the current reporting period or preceding year corresponding period.

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 property, plant and equipment amounting to RM3,078,000, and disposed (including write-off) property, plant and equipment of net book value amounting to RM15,000.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/10/2020</u>	<u>31/10/2019</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	2,103	2,341
Sale of equipment to a related company	75	-
Purchases of equipment and consumables from related companies	4	605

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 RM5,959,000 as at 31 October 2020.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration 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
	31/10/2020 RM'000	31/10/2019 RM'000	31/10/2020 RM'000	31/10/2019 RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	14	15	14	15
Net fair value loss on investment securities	456	-	456	-
And crediting:				
Net gain on disposal of property, plant and equipment	483	1,639	483	1,639
Net fair value gain on investment securities	-	64	-	64
Net foreign exchange gain	34	90	34	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.

18. Detailed analysis of Group performance

Analysis of the performance for the current quarter

The Group's revenue was lower by 16% or RM11.3 million, from RM72.4 million in the preceding year's first quarter ("1QFY2020"), to RM61.1 million for the current quarter ended 31 October 2020 ("1QFY2021"). This was attributed to lower volume for burn-in and testing services.

Interest income was lower by 24% or RM0.4 million, following lower interest rate on placement of fixed deposits.

Other income reduced by 19% or RM0.4 million, mainly due to (i) lower gain on disposal of machinery and test equipment by RM1.2 million, partially offset by (ii) gain on disposal of spares of RM0.6 million and (iii) rental relief and wage subsidies of RM0.2 million, as part of Covid-19 reliefs.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 61% or RM3.8 million, to support higher electronic manufacturing services sales.

Employee benefits expense decreased by 18% or RM4.8 million, following lower headcount and alignment of staff costs to operational requirements.

Depreciation of property, plant and equipment ("PPE") was lower by 17% or RM2.9 million, as certain machinery and test equipment were fully depreciated.

Finance costs reduced by 67% or RM0.5 million, following repayments of bank loans.

Other expenses were lower by 15% or RM2.9 million, mainly attributable to (i) lower repairs and maintenance and utilities costs by RM1.2 million and RM1.5 million respectively, following lower production; (ii) lower management fees by RM0.2 million; (iii) lower rental expense by RM0.2 million, partially offset by (iv) a fair value loss on investment securities of RM0.5 million.

Consequently, the Group's profit before tax declined by 76% or RM4.7 million, from RM6.1 million in 1QFY2020 to RM1.5 million in 1QFY2021.

Analysis of financial position

PPE was lower by 9% or RM10.9 million, from RM127.5 million as at 31 July 2020 to RM116.5 million as at 31 October 2020. The decrease in PPE was primarily due to depreciation charge of RM14.2 million, partially offset by capital expenditure of RM3.1 million.

Trade and other receivables were higher by 47% or RM16.4 million, from RM34.4 million to RM50.7 million, following an increase in trade receivables due to higher sales.

Prepayment increased by 22% or RM0.5 million, from RM2.4 million to RM2.9 million, mainly because of software purchases.

Tax recoverable increased by 14% or RM0.2 million, from RM1.1 million to RM1.2 million, primarily due to higher monthly tax instalment payments made in current reporting period.

Investment securities increased by 7% or RM0.6 million, from RM8.9 million to RM9.5 million, attributable to additional purchases of quoted equity shares of RM1.1 million, partially offset by the fair value loss of RM0.5 million.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

Cash and short-term deposits declined by 6% or RM12.7 million, from RM230.1 million to RM217.4 million, following repayments of loans and borrowings of RM7.5 million, and purchases of PPE and investment securities of RM2.1 million and RM1.1 million respectively.

The Group's loans and borrowings reduced by 30% or RM7.6 million, from RM25.6 million to RM18.0 million, primarily due to net repayments of bank loans of RM6.6 million and repayment of lease liabilities of RM0.9 million.

Deferred tax liabilities reduced by 27% or RM0.3 million, from RM1.1 million to RM0.8 million, primarily due to lower deductible temporary differences, arising from differences in depreciation for tax purposes.

Income tax payable was lower by 28% or RM0.8 million, primarily due to additional monthly tax instalment payments made.

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

The Group achieved profit before tax of RM1.5 million for 1QFY2021, compared to loss before tax of RM1.6 million in the preceding quarter ended 31 July 2020. This increase of RM3.1 million in profit before tax was mainly due to (i) net revenue¹ rose by RM10.2 million following increased volume; (ii) lower inventories write-down by RM1.4 million, partially offset by (iii) lower gain on disposal of PPE equipment by RM5.6 million, (iv) higher employee benefits expense of RM2.1 million and (v) fair value loss adjustment of RM0.9 million, from a fair value gain of RM0.4 million to a fair value loss of RM0.5 million.

20. Prospects

International Monetary Fund made marginal upward revision to the global economy from a negative contraction of 4.9% to 4.4% in 2020. This reflects a sooner than expected improvement in economic activities in the second quarter. Global growth is projected at 5.2% in 2021, implying a modest 0.6% above that of 2019, i.e. pre Covid-19 pandemic.

Worldwide semiconductor revenue has also been revised upwards to USD432.9 billion in 2020, representing a growth of 3.3%, and a further growth of 6.2% in 2021.

These positive indicators of the global economy and the industry are encouraging.

Sales and profitability for this quarter have begun to turn around from the last sequential quarter. We are seeing a progressive recovery of production loadings. If the pandemic situation does not worsen, we look forward to a healthy recovery.

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.

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)

Registration No. : 197201001376 (13022-A)

22. Taxation

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/10/2020	31/10/2019	31/10/2020	31/10/2019
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,041	1,200	1,041	1,200
Deferred tax				
- Relating to origination and reversal of temporary differences	(351)	416	(351)	416
Income tax expense	<u>690</u>	<u>1,616</u>	<u>690</u>	<u>1,616</u>

The effective tax rate for the current quarter was higher than the statutory tax rate, mainly due to certain non-deductible expenses as well as certain deferred tax assets were not recognized on unutilized business losses and other deductible temporary differences.

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 7 January 2021. A circular which set out the details of the Proposed Renewal of Shareholders' Mandate had been issued to shareholders of the Company on 27 October 2020.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

24. Group borrowings and debt securities

	<u>As at</u> <u>31/10/2020</u> <u>RM'000</u>	<u>As at</u> <u>31/07/2020</u> <u>RM'000</u>
(a) Bank loans*	10,808	17,342
Lease liabilities	<u>7,171</u>	<u>8,223</u>
	<u>17,979</u>	<u>25,565</u>
(b) Repayable within 12 months	14,287	21,078
Repayable after 12 months	<u>3,692</u>	<u>4,487</u>
	<u>17,979</u>	<u>25,565</u>
(c) Total loans and borrowings denominated in:		
Renminbi	8,728	10,546
Ringgit Malaysia	<u>9,251</u>	<u>15,019</u>
	<u>17,979</u>	<u>25,565</u>

* Included in the bank loans were secured bank loans of RM 5,092,000 (31/07/2020: RM6,618,000).

25. Changes in material litigation

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

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration 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.

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/10/2020	31/10/2019	31/10/2020	31/10/2019
Profit, net of tax (RM'000)	764	4,528	764	4,528
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>1.8</u>	<u>10.5</u>	<u>1.8</u>	<u>10.5</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: 18 November 2020

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FIRST QUARTER ENDED 31 OCTOBER 2020

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER (31/10/2020) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2019) RM'000	CURRENT YEAR TO DATE (31/10/2020) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2019) RM'000
1. Revenue	61,111	72,389	61,111	72,389
2. Profit before tax	1,454	6,144	1,454	6,144
3. Profit for the period	764	4,528	764	4,528
4. Profit attributable to ordinary equity holders of the Company	764	4,528	764	4,528
5. Basic earnings per share (sen)	1.78	10.53	1.78	10.53
6. Proposed/Declared dividend per share (sen)	-	-	-	-

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR
7. Net assets per share attributable to ordinary equity holders of the Company (RM)	8.3073	8.2826

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER (31/10/2020) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2019) RM'000	CURRENT YEAR TO DATE (31/10/2020) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2019) RM'000
1. Gross interest income	1,185	1,567	1,185	1,567
2. Gross interest expense	262	791	262	791