

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 2021**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 October 2021.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER 31 OCTOBER 2021**

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding		to date	corresponding	
	(31/10/2021)	quarter (31/10/2020)		(31/10/2021)	year to date (31/10/2020)	
	RM'000	RM'000		RM'000	RM'000	
Revenue	68,583	61,111	12%	68,583	61,111	12%
Other items of income						
Interest income	971	1,185	(18%)	971	1,185	(18%)
Dividend income	40	60	(33%)	40	60	(33%)
Other income	4,973	1,486	>100%	4,973	1,486	>100%
Items of expenses						
Raw materials and consumables used	(7,373)	(9,395)	(22%)	(7,373)	(9,395)	(22%)
Changes in inventories of finished goods and work-in-progress	304	(620)	NM	304	(620)	NM
Employee benefits expense	(25,555)	(21,773)	17%	(25,555)	(21,773)	17%
Depreciation of property, plant and equipment	(14,524)	(14,208)	2%	(14,524)	(14,208)	2%
Finance costs	(128)	(262)	(51%)	(128)	(262)	(51%)
Other expenses	(18,641)	(16,130)	16%	(18,641)	(16,130)	16%
Profit before tax	8,650	1,454	>100%	8,650	1,454	>100%
Income tax expense	(1,133)	(690)	64%	(1,133)	(690)	64%
Profit, net of tax	7,517	764	>100%	7,517	764	>100%
Other comprehensive income:						
Item to be reclassified subsequently to profit or loss						
Foreign currency translation (loss)/gain	(448)	295	NM	(448)	295	NM
Total comprehensive income for the period, net of tax	7,069	1,059	>100%	7,069	1,059	>100%
Earnings per share attributable to owners of the Company (sen):						
- Basic	17.50	1.80	>100%	17.50	1.80	>100%

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 2021 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 OCTOBER 2021

	As at end of current quarter 31/10/2021 RM'000	As at preceding financial year end 31/07/2021 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	121,325	122,331
Deferred tax assets	3,471	3,398
Other receivables	661	664
	<u>125,457</u>	<u>126,393</u>
Current assets		
Inventories	6,774	7,844
Trade and other receivables	56,631	46,801
Prepayments	2,717	1,414
Investment securities	18,191	14,182
Tax recoverable	3,808	3,926
Cash and short-term deposits	206,175	215,368
	<u>294,296</u>	<u>289,535</u>
Total assets	<u>419,753</u>	<u>415,928</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	19,606	20,054
Retained earnings	307,189	299,672
Total equity	<u>370,473</u>	<u>363,404</u>
Non-current liabilities		
Loans and borrowings	5,138	6,375
Defined benefit liabilities	4,449	4,362
Deferred tax liabilities	2,513	2,528
	<u>12,100</u>	<u>13,265</u>
Current liabilities		
Trade and other payables	29,860	30,443
Contract liabilities	1,252	1,375
Loans and borrowings	6,044	7,417
Income tax payable	24	24
	<u>37,180</u>	<u>39,259</u>
Total liabilities	<u>49,280</u>	<u>52,524</u>
Total equity and liabilities	<u>419,753</u>	<u>415,928</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.61</u>	<u>8.45</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 2021 and the accompanying explanatory notes attached to the interim financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 OCTOBER 2021**

	< ----- Attributable to owners of the Company ----- >					Total equity
	< ----- Non-distributable ----- >				Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
FY2022						
As at 1 August 2021	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2021	43,678	13,185	4,629	2,240	299,672	363,404
Profit for the period	-	-	-	-	7,517	7,517
Other comprehensive income for the period	-	(448)	-	-	-	(448)
As at 31 October 2021	43,678	12,737	4,629	2,240	307,189	370,473

	< ----- 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						
As at 1 August 2020	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

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 2021 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 OCTOBER 2021

	Current year to date 31/10/2021 RM'000	Preceding year corresponding year to date 31/10/2020 RM'000
OPERATING ACTIVITIES		
Profit before tax	8,650	1,454
Adjustments for:		
Depreciation of property, plant and equipment	14,524	14,208
Net gain on disposal of property, plant and equipment	-	(483)
Write-down of inventories	19	14
Net fair value (gain)/loss on investment securities	(4,595)	456
Unrealised exchange loss	14	7
Dividend income	(40)	(60)
Interest income	(971)	(1,185)
Finance costs	128	262
Operating cash flows before changes in working capital	17,729	14,673
(Increase)/decrease in inventories	1,051	(242)
Increase in prepayments and receivables	(11,029)	(17,286)
(Decrease)/increase in payables and contract liabilities	(5,233)	1,487
Cash flows from operations	2,518	(1,368)
Income taxes paid, net	(1,126)	(1,979)
Interest paid	(150)	(292)
Interest received	755	1,502
Net cash flows from operating activities	1,997	(2,137)
INVESTING ACTIVITIES		
Increase in short-term deposits with maturity more than three months	-	(7,306)
Purchase of investment securities	(356)	(1,050)
Proceeds from disposal of investment securities	942	-
Dividend income	40	60
Purchase of property, plant and equipment	(7,827)	(2,128)
Proceeds from disposal of property, plant and equipment	-	498
Net cash flows used in investing activities	(7,201)	(9,926)
FINANCING ACTIVITIES		
Repayment of principal portion of lease liabilities	(695)	(874)
Repayment of bank loans	(1,868)	(6,579)
Dividend paid on ordinary shares	(1,290)	(645)
Net cash flows used in financing activities	(3,853)	(8,098)
Net decrease in cash and cash equivalents	(9,057)	(20,161)
Effect of exchange rate changes on cash and cash equivalents	(136)	123
Cash and cash equivalents at beginning of the period	65,568	84,694
Cash and cash equivalents at end of the period	56,375	64,656

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Cash and cash equivalents comprised the following:

	Current year to date 31/10/2021 RM'000	Preceding year corresponding year to date 31/10/2020 RM'000
Cash at banks and on hand	26,536	22,119
Deposits with licensed banks	179,639	195,252
Cash and short-term deposits	206,175	217,371
Less: Short-term deposits with maturity more than three months	(149,800)	(152,715)
Cash and cash equivalents	56,375	64,656

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2021 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 2021. 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 2021.

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 2021 except that on 1 August 2021, the Group adopted the MFRSs, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2021 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 for the current 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

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 RM13,751,000.

12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/10/2021</u>	<u>31/10/2020</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	2,254	2,103
Sale of equipment to a related company	-	75
Purchases of equipment and consumables from related companies	554	4

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 RM15,026,000 as at 31 October 2021.

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
	31/10/2021	31/10/2020	31/10/2021	31/10/2020
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	19	14	134	14
Net fair value loss on investment securities	-	456	-	456
Net foreign exchange loss	34	-	34	-
And crediting:				
Net gain on disposal of property, plant and equipment	-	483	-	483
Net fair value gain on investment securities	4,595	-	4,595	-
Net foreign exchange gain	-	34	-	34

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 revenue improved by 12% or RM7.5 million, from RM61.1 million in the preceding year's first quarter ("1QFY2021") to RM68.6 million for the current quarter ended 31 October 2021 ("1QFY2022"). This was attributed to higher sales for burn-in and testing services, but lower orders for electronic manufacturing services ("EMS").

Other income increased by RM3.5 million, mainly due to (i) fair value gain on investment in securities of RM4.6 million, partially offset by (ii) absence of gain on disposal of machinery and test equipment of RM0.5 million and (iii) lower gain on disposal of spares by RM0.6 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress decreased by 29% or RM2.9 million, following lower EMS sales.

Employee benefits expense increased by 17% or RM3.8 million, in support of higher operational requirements.

Other expenses were higher by 16% or RM2.5 million, mainly attributable to higher repairs and maintenance cost and utilities cost by RM2.0 million and RM0.3 million respectively, to support increased revenue.

Consequently, the Group's profit before tax improved by RM7.2 million, from RM1.5 million to RM8.7 million, in the reporting period under review.

Analysis of financial position

Property, plant and equipment ("PPE") was lower by 1% or RM1.0 million, from RM122.3 million as at 31 July 2021 to RM121.3 million as at 31 October 2021. The decrease was primarily due to depreciation charge of RM14.5 million, offset by capital expenditure of RM13.8 million.

Inventories were lower by 14% or RM1.1 million, from RM7.8 million to RM6.8 million, for the fulfilment of EMS orders.

Trade and other receivables were higher by 21% or RM9.9 million, from RM46.8 million to RM56.6 million. This was largely due to improved sales in the reporting quarter under review as compared to the previous fourth quarter ended 31 July 2021.

Prepayment increased by 92% or RM1.3 million, from RM1.4 million to RM2.7 million, mainly attributable to higher purchases of machinery and test equipment, and higher system maintenance services.

Investment securities increased by 28% or RM4.0 million, from RM14.2 million to RM18.2 million, mainly attributable to fair value gain of RM4.6 million.

Cash and short-term deposits declined by 4% or RM9.2 million, from RM215.4 million to RM206.2 million, mainly due to payments for purchases of PPE and repayment of loans and borrowings.

The Group's loans and borrowings reduced by 19% or RM2.6 million, from RM13.8 million to RM11.2 million, primarily due to repayment of bank loans of RM1.9 million and repayment of lease liabilities of RM0.7 million.

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

The Group achieved profit before tax of RM8.7 million in 1QFY2022, compared to RM0.01 million in the preceding quarter ended 31 July 2021. The improvement of RM8.6 million in profit before tax was mainly due to (i) higher net revenue¹ by RM10.7 million and (ii) higher fair value gain by RM3.8 million, partially offset by (iii) higher repair and maintenance and utilities cost of RM2.3 million; (iv) higher employee benefits expense by RM2.1 million and (v) higher management fee of RM1.0 million.

20. Prospects

The International Monetary Fund has revised downward the global economic growth forecast for 2021 from 6.0% to 5.9%, reflecting a slower pace in global recovery with increased uncertainty over the rapid spread of Delta variant. However, the projected growth forecast for 2022 still remains at 4.9%.

Worldwide semiconductor revenue is projected to grow by 26.9% to USD591.4 billion in 2021, from the anticipated continued growth in consumer, computing, 5G, and automotive semiconductors, coupled with higher pricing associated with the supply chain disruption. It is predicted to grow further exceeding USD600 billion in 2022.

Major economies are beginning to re-open including Malaysia whilst the Delta variant has emerged in parts of Europe and China, at the start of the winter season.

Amidst the hope for a quicker easing of the COVID-19 restrictions and re-opening of borders, the Group remains focused on improving deliveries of materials and equipment, as well as stepping up efforts to fulfilling backlogs of our customers..

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
	31/10/2021	31/10/2020	31/10/2021	31/10/2020
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,244	1,041	1,244	1,041
Deferred tax				
- Relating to origination and reversal of temporary differences	(111)	(351)	(111)	(351)
Income tax expense	<u>1,133</u>	<u>690</u>	<u>1,133</u>	<u>690</u>

The effective tax rate for the current quarter was lower than the statutory tax rate, mainly due to certain non-taxable income.

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

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 Company's Annual General Meeting to be held on 13 January 2022. 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 2021.

24. Group borrowings and debt securities

	<u>As at</u> <u>31/10/2021</u> <u>RM'000</u>	<u>As at</u> <u>31/07/2021</u> <u>RM'000</u>
Bank loans*	7,172	9,066
Lease liabilities	4,010	4,726
	<u>11,182</u>	<u>13,792</u>
Repayable within 12 months	6,044	7,417
Repayable after 12 months	5,138	6,375
	<u>11,182</u>	<u>13,792</u>
Total loans and borrowings denominated in:		
Renminbi	2,875	4,387
Ringgit Malaysia	8,307	9,405
	<u>11,182</u>	<u>13,792</u>

* Included in the bank loans were secured bank loans of RM1,178,000 (31/07/2021: RM2,451,000).

25. Changes in material litigation

There was no 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
	31/10/2021	31/10/2020	31/10/2021	31/10/2020
Profit, net of tax (RM'000)	7,517	764	7,517	764
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>17.50</u>	<u>1.80</u>	<u>17.50</u>	<u>1.80</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 2021

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SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FIRST QUARTER ENDED 31 OCTOBER 2021

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/10/2021) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2020) RM'000	CURRENT YEAR TO DATE (31/10/2021) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2020) RM'000
1.	Revenue	68,583	61,111	68,583	61,111
2.	Profit before tax	8,650	1,454	8,650	1,454
3.	Profit for the period	7,517	764	7,517	764
4.	Profit attributable to ordinary equity holders of the Company	7,517	764	7,517	764
5.	Basic earnings per share (sen)	17.50	1.80	17.50	1.80
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)	8.6127	8.4484

ADDITIONAL INFORMATION

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (31/10/2021) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2020) RM'000	CURRENT YEAR TO DATE (31/10/2021) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2020) RM'000
1.	Gross interest income	971	1,185	971	1,185
2.	Gross interest expense	128	262	128	262