

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

UNAUDITED THIRD QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 APRIL 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER 30 APRIL 2022

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding		to date	corresponding	
	(30/04/2022)	quarter (30/04/2021)		(30/04/2022)	year to date (30/04/2021)	
	RM'000	RM'000		RM'000	RM'000	
Revenue	58,190	61,140	(5%)	191,073	190,208	0%
Other items of income						
Interest income	941	884	6%	2,835	3,066	(8%)
Dividend income	43	17	>100%	243	105	>100%
Other income	662	4,357	(85%)	3,567	11,564	(69%)
Items of expenses						
Raw materials and consumables used	(5,349)	(9,299)	(42%)	(19,425)	(29,918)	(35%)
Changes in inventories of finished goods and work-in-progress	(218)	362	NM	(750)	8	NM
Employee benefits expense	(23,994)	(24,127)	(1%)	(73,385)	(70,295)	4%
Depreciation of property, plant and equipment	(12,253)	(14,635)	(16%)	(40,371)	(43,152)	(6%)
Finance costs	(102)	(207)	(51%)	(335)	(620)	(46%)
Other expenses	(19,869)	(16,582)	20%	(56,626)	(49,947)	13%
Profit/(loss) before tax	(1,949)	1,910	NM	6,826	11,019	(38%)
Income tax expense	(390)	(1,016)	(62%)	(2,657)	(3,030)	(12%)
Profit/(loss), net of tax	(2,339)	894	NM	4,169	7,989	(48%)
Other comprehensive income:						
Item to be reclassified subsequently to profit or loss						
Foreign currency translation gain	246	695	(65%)	303	2,108	(86%)
Total comprehensive income for the period, net of tax	(2,093)	1,589	NM	4,472	10,097	(56%)
Earnings/(loss) per share attributable to owners of the Company (sen):						
- Basic	(5.4)	2.1	NM	9.7	18.6	(48%)

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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Registration No. : 197201001376 (13022-A)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL 2022

	As at end of current quarter 30/04/2022 RM'000	As at preceding financial year end 31/07/2021 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	104,021	122,331
Deferred tax assets	3,904	3,398
Other receivables	666	664
	<u>108,591</u>	<u>126,393</u>
Current assets		
Inventories	2,994	7,844
Trade and other receivables	49,916	46,801
Prepayments	3,433	1,414
Investment securities	13,188	14,182
Tax recoverable	5,828	3,926
Cash and short-term deposits	222,085	215,368
	<u>297,444</u>	<u>289,535</u>
Total assets	<u>406,035</u>	<u>415,928</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	20,357	20,054
Retained earnings	301,260	299,672
Total equity	<u>365,295</u>	<u>363,404</u>
Non-current liabilities		
Loans and borrowings	3,590	6,375
Defined benefit liabilities	4,624	4,362
Deferred tax liabilities	4,178	2,528
	<u>12,392</u>	<u>13,265</u>
Current liabilities		
Trade and other payables	22,709	30,443
Contract liabilities	371	1,375
Loans and borrowings	5,244	7,417
Income tax payable	24	24
	<u>28,348</u>	<u>39,259</u>
Total liabilities	<u>40,740</u>	<u>52,524</u>
Total equity and liabilities	<u>406,035</u>	<u>415,928</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.49</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.

KESM INDUSTRIES BERHAD
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 30 APRIL 2022

	< ----- 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	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	-	-	-	-	4,169	4,169
Other comprehensive income for the period	-	303	-	-	-	303
Transaction with owners						
Dividends on ordinary shares	-	-	-	-	(2,581)	(2,581)
As at 30 April 2022	43,678	13,488	4,629	2,240	301,260	365,295

	< ----- 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	-	-	-	-	7,989	7,989
Other comprehensive income for the period	-	2,108	-	-	-	2,108
Transactions with owners						
Dividends on ordinary shares	-	-	-	-	(2,581)	(2,581)
As at 30 April 2021	43,678	12,018	4,629	2,240	301,225	363,790

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 30 APRIL 2022

	Current year to date 30/04/2022 RM'000	Preceding year corresponding year to date 30/04/2021 RM'000
OPERATING ACTIVITIES		
Profit before tax	6,826	11,019
Adjustments for:		
Depreciation of property, plant and equipment	40,371	43,152
Plant and equipment written off	2	-
Net gain on disposal of property, plant and equipment	-	(7,322)
Write-down of inventories	194	69
Net fair value gain on investment securities	(2,224)	(2,516)
Unrealised exchange gain	(243)	(25)
Dividend income	(243)	(105)
Interest income	(2,835)	(3,066)
Finance costs	335	620
Operating cash flows before changes in working capital	42,183	41,826
Decrease/(increase) in inventories	4,656	(1,068)
Increase in prepayments and receivables	(4,630)	(17,973)
Decrease in payables and contract liabilities	(8,155)	(209)
Cash flows from operations	34,054	22,576
Income taxes paid, net	(3,398)	(6,419)
Interest paid	(377)	(699)
Interest received	2,705	3,514
Net cash flows from operating activities	32,984	18,972
INVESTING ACTIVITIES		
Decrease in short-term deposits with maturity more than three months	300	1,654
Purchase of investment securities	(478)	(2,890)
Proceeds from disposal of investment securities	3,696	944
Dividend income	243	105
Purchase of property, plant and equipment	(19,652)	(33,946)
Proceeds from disposal of property, plant and equipment	-	7,401
Net cash flows used in investing activities	(15,891)	(26,732)
FINANCING ACTIVITIES		
Repayment of principal portion of lease liabilities	(1,979)	(2,788)
Repayment of bank loans	(4,383)	(17,523)
Proceeds from bank loans	-	10,638
Dividend paid on ordinary shares	(3,871)	(3,226)
Net cash flows used in financing activities	(10,233)	(12,899)
Net increase/(decrease) in cash and cash equivalents	6,860	(20,659)
Effect of exchange rate changes on cash and cash equivalents	157	789
Cash and cash equivalents at beginning of the period	65,568	84,694
Cash and cash equivalents at end of the period	72,585	64,824

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Cash and cash equivalents comprised the following:

	Current year to date 30/04/2022 RM'000	Preceding year corresponding year to date 30/04/2021 RM'000
Cash at banks and on hand	23,926	26,813
Deposits with licensed banks	198,159	181,766
Cash and short-term deposits	222,085	208,579
Less: Short-term deposits with maturity more than three months	(149,500)	(143,755)
Cash and cash equivalents	72,585	64,824

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

	Current year to date <u>30/04/2022</u> RM'000	Preceding year corresponding year to date <u>30/04/2021</u> RM'000
Recognised during the financial year to date		
Final tax exempt dividend for 2021 at 6 sen (2020: 6 sen) per ordinary share, paid on 15 February 2022	2,581	2,581

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 RM21,935,000, and disposed (including write-off) property, plant and equipment of net book value amounting to RM2,000.

12. Significant related party transactions

	Current year to date <u>30/04/2022</u> RM'000	Preceding year corresponding year to date <u>30/04/2021</u> RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by holding company	6,933	6,219
Dividends paid/payable to holding company	1,250	1,250
Sale of equipment to a related company	-	75
Purchases of equipment and consumables from related companies	2,945	430

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 RM106,628,000 as at 30 April 2022.

Included in the commitments was an amount of RM2,673,000 relating to purchases from certain related companies.

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
	30/04/2022	30/04/2021	30/04/2022	30/04/2021
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	171	34	194	69
Net fair value loss on investment securities	372	-	-	-
Net foreign exchange loss	-	-	-	-
And crediting:				
Net gain on disposal of property, plant and equipment	-	3,756	-	7,322
Net fair value gain on investment securities	-	152	2,224	2,516
Net foreign exchange gain	399	13	348	98

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 5% or RM3.0 million, from RM61.1 million in the preceding year's third quarter ("3QFY2021") to RM58.2 million for the current quarter ended 30 April 2022 ("3QFY2022"). This was largely attributed to reduced sales from electronic manufacturing services ("EMS") which was scaled down. However, the current quarter registered higher burn-in and testing sales compared with the last corresponding quarter.

Other income decreased by 85% or RM3.7 million, because there was no disposal of machinery and test equipment.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress decreased by 38% or RM3.4 million, in line with lower EMS sales.

Depreciation of property, plant and equipment was lower by 16% or RM2.4 million, as certain machinery and test equipment were fully depreciated.

Other expenses increased by 20% or RM3.3 million, mainly attributable to the higher repairs and maintenance of RM1.1 million, utility costs of RM1.0 million and management fees of RM0.2 million in support of higher burn-in and testing services, a net fair value loss on investment securities of RM0.4 million, and portfolio fees for investment securities of RM0.3 million.

Consequently, the Group reported a loss before tax of RM1.9 million, from profit before tax of RM1.9 million in the reporting period under review.

Analysis of the performance for the current financial year to date

The Group's revenue was RM191.1 million for the current financial period ended 30 April 2022, comparable with that of RM190.2 million in the preceding year's corresponding period. The increase in burn-in and testing services was offset by the decline in EMS sales.

Other income decreased by 69% or RM8.0 million, as there was no disposal of machinery and test equipment.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress were lower by 33% or RM9.7 million, in line with lower EMS sales.

Employee benefits expense increased by 4% or RM3.1 million, to align to operational requirements for burn-in and testing services, and included severance compensation following the scaling down of EMS.

Depreciation of property, plant and equipment was lower by 6% or RM2.8 million, as certain machinery and test equipment were fully depreciated.

Other expenses rose by 13% or RM6.7 million, largely attributable to higher repairs and maintenance costs of RM3.1 million, utility costs of RM1.3 million, management fees of RM0.7 million, as well as portfolio fees for investment securities of RM1.0 million.

Consequently, the Group's profit before tax was lower by 38% or RM4.2 million, from RM11.0 million to RM6.8 million in the current financial period.

Analysis of financial position

Property, plant and equipment was lower by 15% or RM18.3 million, from RM122.3 million as at 31 July 2021 to RM104.0 million as at 30 April 2022. The decrease was primarily due to depreciation charge of RM40.4 million, offset by capital expenditure of RM21.9 million.

Deferred tax assets increased by 15% or RM0.5 million, from RM3.4 million to RM3.9 million, as a result of higher taxable temporary differences arising from unutilised tax benefit.

Inventories were lower by 62% or RM4.9 million, from RM7.8 million to RM3.0 million, as they were consumed in the fulfilment of EMS orders.

Trade and other receivables were higher by 7% or RM3.1 million, from RM46.8 million to RM49.9 million, reflecting an improved burn-in and testing sales in the reporting quarter under review as compared to the previous fourth quarter ended 31 July 2021.

Prepayment increased by RM2.0 million, from RM1.4 million to RM3.4 million, mainly attributable to higher procurement of machinery and test equipment, and system maintenance services.

Investment securities were lower by 7% or RM1.0 million, from RM14.2 million to RM13.2 million, as a result of net disposal of investment securities of RM3.2 million, offset by higher fair value gain of RM2.2 million.

Tax recoverable increased by 48% or RM1.9 million, from RM3.9 million to RM5.8 million, primarily due to higher monthly tax instalment payments made during the current period.

Cash and short-term deposits improved by 3% or RM6.7 million, from RM215.4 million to RM222.1 million, representing higher net cash flows generated from operating activities.

Trade and other payables were lower by 25% or RM7.7 million, from RM30.4 million to RM22.7 million, which reflected the settlement of purchases of machinery and test equipment and settlement of dividend payable.

Contract liabilities reduced by 73% or RM1.0 million, from RM1.4 million to RM0.4 million, upon fulfilment of EMS deliveries.

The Group's loans and borrowings reduced by 36% or RM5.0 million, from RM13.8 million to RM8.8 million, primarily due to repayment of bank loans of RM4.4 million.

Deferred tax liabilities increased by 65% or RM1.7 million, from RM2.5 million to RM4.2 million, as a result of higher deductible temporary differences arising from the utilisation of accelerated capital allowances.

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

The Group reported a loss before tax of RM1.9 million in 3QFY2022, compared to marginal profit before tax of RM0.1 million in the preceding quarter ended 31 January 2022. The decline of RM2.1 million in profit before tax was largely due to (i) lower net revenue¹ by RM4.1 million, resulting from material transfer disruptions; (ii) severance compensation of RM0.8 million, (iii) inventory write-down of RM0.2 million; partially offset by (iv) lower fair value loss on investment securities of RM1.6 million and (v) lower depreciation by RM1.3 million.

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

20. Prospects

The International Monetary Fund has further revised the 2022 global economic growth forecast downward in its latest April 2022 projection, from 4.4% to 3.6%. This reflects the economic damage induced by the war in Ukraine, of rising commodity prices leading to rising inflation, followed by rising interest rates as central banks tighten policy. The situation is worsened by the recent lockdowns especially in key manufacturing sites in China, likely to compound the effect of an already disrupted global supply chain.

The worldwide semiconductor revenue was USD595 billion in 2021, and is projected to grow further by 13.6% to USD676 billion. This unprecedented growth represented the continuing strong demand amid the ongoing global chip shortages which is expected to ease gradually through 2022, and higher semiconductors' average selling prices.

Notwithstanding these dynamic changes in the global economic outlook, the Group is committed to support its customers' demand for increased capacity to address the supply-demand imbalances, whilst tackling the challenges in the flow of material volatility and labour shortages.

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
	30/04/2022	30/04/2021	30/04/2022	30/04/2021
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(89)	1,614	1,496	4,321
Deferred tax				
- Relating to origination and reversal of temporary differences	479	(588)	1,161	(1,281)
- Over provision in prior years	-	(10)	-	(10)
	479	(598)	1,161	(1,291)
Income tax expense	390	1,016	2,657	3,030

The tax expense for the current quarter was largely 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.

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

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23. Status of uncompleted corporate proposals

There was no corporate proposal announced and not completed as at the date of this report.

24. Group borrowings and debt securities

	As at 30/04/2022	As at 31/07/2021
	RM'000	RM'000
Bank loans*	4,701	9,066
Lease liabilities	4,133	4,726
	8,834	13,792
Repayable within 12 months	5,244	7,417
Repayable after 12 months	3,590	6,375
	8,834	13,792
Total loans and borrowings denominated in:		
Renminbi	1,274	4,387
Ringgit Malaysia	7,560	9,405
	8,834	13,792

* Included bank loans of RM nil secured by corporate guarantee provided by the Company as at 30/4/2022 (31/7/2021: 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/(loss) per ordinary share amounts are calculated by dividing profit/(loss) 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
	30/04/2022	30/04/2021	30/04/2022	30/04/2021
Profit/(loss), net of tax (RM'000)	(2,339)	894	4,169	7,989
Weighted average number of ordinary shares ('000)	43,014.5	43,014.5	43,014.5	43,014.5
Basic earnings/(loss) per share (sen)	<u>(5.4)</u>	<u>2.1</u>	<u>9.7</u>	<u>18.6</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: 26 May 2022

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SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE THIRD QUARTER ENDED 30 APRIL 2022

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (30/04/2022) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2021) RM'000	CURRENT YEAR TO DATE (30/04/2022) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (30/04/2021) RM'000
1.	Revenue	58,190	61,140	191,073	190,208
2.	Profit/(loss) before tax	(1,949)	1,910	6,826	11,019
3.	Profit/(loss) for the period	(2,339)	894	4,169	7,989
4.	Profit/(loss) attributable to ordinary equity holders of the Company	(2,339)	894	4,169	7,989
5.	Basic earnings/(loss) per share (sen)	(5.44)	2.08	9.69	18.57
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)	8.4924	8.4484

ADDITIONAL INFORMATION

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER (30/04/2022) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2021) RM'000	CURRENT YEAR TO DATE (30/04/2022) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (30/04/2021) RM'000
1.	Gross interest income	941	884	2,835	3,066
2.	Gross interest expense	102	207	335	620