

**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 2022**

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME FOR THE QUARTER 31 OCTOBER 2022**

	Individual period			Cumulative period		
	Current year quarter (31/10/2022) RM'000	Preceding year corresponding quarter (31/10/2021) RM'000	% Change	Current year to date (31/10/2022) RM'000	Preceding year corresponding year to date (31/10/2021) RM'000	% Change
<b>Revenue</b>	52,764	68,583	(23%)	52,764	68,583	(23%)
<b>Other items of income</b>						
Interest income	777	971	(20%)	777	971	(20%)
Dividend income	65	40	63%	65	40	63%
Other income	2,720	4,973	(45%)	2,720	4,973	(45%)
<b>Items of expenses</b>						
Raw materials and consumables used	(4,571)	(7,373)	(38%)	(4,571)	(7,373)	(38%)
Changes in inventories of finished goods and work-in-progress	-	304	(100%)	-	304	(100%)
Employee benefits expense	(24,612)	(25,555)	(4%)	(24,612)	(25,555)	(4%)
Depreciation of property, plant and equipment	(9,631)	(14,524)	(34%)	(9,631)	(14,524)	(34%)
Finance costs	(314)	(128)	NM	(314)	(128)	NM
Other expenses	(18,891)	(18,641)	1%	(18,891)	(18,641)	1%
<b>(Loss)/profit before tax</b>	(1,693)	8,650	NM	(1,693)	8,650	(120%)
Income tax credit/(expense)	153	(1,133)	(114%)	153	(1,133)	NM
<b>(Loss)/profit, net of tax</b>	(1,540)	7,517	NM	(1,540)	7,517	NM
<b>Other comprehensive income:</b>						
<b>Item to be reclassified subsequently to profit or loss</b>						
Foreign currency translation loss	(752)	(448)	68%	(752)	(448)	68%
<b>Total comprehensive income for the period, net of tax</b>	(2,292)	7,069	NM	(2,292)	7,069	NM
(Loss)/earnings per share attributable to owners of the Company (sen):						
- Basic	(3.6)	17.5	NM	(3.6)	17.5	NM

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 2022 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 31 OCTOBER 2022**

	<b>As at end of current quarter 31/10/2022 RM'000</b>	<b>As at preceding financial year end 31/07/2022 RM'000</b>
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	195,981	170,553
Deferred tax assets	4,953	4,410
Other receivables	362	367
	<u>201,296</u>	<u>175,330</u>
<b>Current assets</b>		
Inventories	1,975	1,867
Trade and other receivables	44,717	48,253
Prepayments	3,215	4,413
Investment securities	14,090	12,409
Tax recoverable	6,409	6,517
Cash and short-term deposits	167,161	176,853
	<u>237,567</u>	<u>250,312</u>
<b>Total assets</b>	<u><u>438,863</u></u>	<u><u>425,642</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	43,678	43,678
Other reserves	19,690	20,442
Retained earnings	296,698	298,238
<b>Total equity</b>	<u>360,066</u>	<u>362,358</u>
<b>Non-current liabilities</b>		
Loans and borrowings	12,573	15,394
Defined benefit liabilities	4,727	4,640
Deferred tax liabilities	5,193	5,300
	<u>22,493</u>	<u>25,334</u>
<b>Current liabilities</b>		
Trade and other payables	43,199	26,060
Loans and borrowings	13,105	11,890
	<u>56,304</u>	<u>37,950</u>
<b>Total liabilities</b>	<u>78,797</u>	<u>63,284</u>
<b>Total equity and liabilities</b>	<u><u>438,863</u></u>	<u><u>425,642</u></u>
Net assets per share attributable to owners of the Company (RM)	<u>8.37</u>	<u>8.42</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 2022 and the accompanying explanatory notes attached to the interim financial statements.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 31 OCTOBER 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	
<b>FY2023</b>						
<b>As at 1 August 2022</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>
	43,678	13,573	4,629	2,240	298,238	362,358
Loss for the period	-	-	-	-	(1,540)	(1,540)
Other comprehensive income for the period	-	(752)	-	-	-	(752)
<b>As at 31 October 2022</b>	43,678	12,821	4,629	2,240	296,698	360,066

	< ----- 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>FY2022</b>						
<b>As at 1 August 2021</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>
	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)
<b>As at 31 October 2021</b>	43,678	12,737	4,629	2,240	307,189	370,473

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 2022 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 2022**

	Current year to date  31/10/2022 RM'000	Preceding year corresponding year to date 31/10/2021 RM'000
<b>OPERATING ACTIVITIES</b>		
(Loss)/profit before tax	(1,693)	8,650
Adjustments for:		
Depreciation of property, plant and equipment	9,631	14,524
Net gain on disposal of property, plant and equipment	(1,586)	-
(Write-back)/write-down of inventories	(738)	19
Net fair value loss/(gain) on investment securities	74	(4,595)
Unrealised exchange loss	360	14
Dividend income	-	(40)
Interest income	(777)	(971)
Finance costs	314	128
<b>Operating cash flows before changes in working capital</b>	<b>5,585</b>	<b>17,729</b>
Decrease in inventories	630	1,051
Decrease/(increase) in prepayments and receivables	4,687	(11,029)
Decrease in payables and contract liabilities	(4,124)	(5,233)
<b>Cash flows from operations</b>	<b>6,778</b>	<b>2,518</b>
Income taxes paid, net	(430)	(1,126)
Interest paid	(289)	(150)
Interest received	827	755
<b>Net cash flows from operating activities</b>	<b>6,886</b>	<b>1,997</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in short-term deposits with maturity more than three months	25,500	-
Purchase of investment securities	(1,755)	(356)
Proceeds from disposal of investment securities	-	942
Dividend income	-	40
Purchase of property, plant and equipment	(15,319)	(7,827)
Proceeds from disposal of property, plant and equipment	2,538	-
<b>Net cash flows from/(used in) investing activities</b>	<b>10,964</b>	<b>(7,201)</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of principal portion of lease liabilities	(988)	(695)
Repayment of bank loans	(2,146)	(1,868)
Proceeds from bank loans	1,548	-
Dividend paid on ordinary shares	(645)	(1,290)
<b>Net cash flows used in financing activities</b>	<b>(2,231)</b>	<b>(3,853)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>15,619</b>	<b>(9,057)</b>
Effect of exchange rate changes on cash and cash equivalents	189	(136)
Cash and cash equivalents at beginning of the period	82,353	65,568
<b>Cash and cash equivalents at end of the period</b>	<b>98,161</b>	<b>56,375</b>

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Cash and cash equivalents comprised the following:

	Current year to date 31/10/2022 RM'000	Preceding year corresponding year to date 31/10/2021 RM'000
Cash at banks and on hand	22,656	26,536
Deposits with licensed banks	144,505	179,639
Cash and short-term deposits	167,161	206,175
Less: Short-term deposits with maturity more than three months	(69,000)	(149,800)
Cash and cash equivalents	98,161	56,375

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2022 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 2022. 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 2022.

### **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 2022 except that on 1 August 2022, the Group adopted the MFRSs, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2022 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 financial 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 financial period.

**8. Dividends**

No dividend was declared during the current financial 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 financial period.

**11. Acquisition or disposal of items of property, plant and equipment**

During the current financial period, the Group acquired property, plant and equipment amounting to RM36,330,000, and disposed (including write-off) property, plant and equipment of net book value amounting to RM952,000.

**12. Significant related party transactions**

	Current year to date  31/10/2022 RM'000	Preceding year corresponding year to date 31/10/2021 RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by holding company	2,185	2,254
Rental received/receivable from related company	14	-
Purchases of equipment (including consumables) and related software from related companies	769	554

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 RM13,763,000 as at 31 October 2022.

Included in the commitments was an amount of RM867,000 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
	31/10/2022	31/10/2021	31/10/2022	31/10/2021
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Write-down of inventories	-	19	-	19
Net fair value loss on investment securities	74	-	74	-
Net foreign exchange loss	-	34	-	34
And crediting:				
Write-back of inventories	738	-	738	-
Net gain on disposal of property, plant and equipment	1,586	-	1,586	-
Net fair value gain on investment securities	-	4,595	-	4,595
Net foreign exchange gain	284	-	284	-

There was no gain or loss arising from derivatives, disposal of unquoted investments and exceptional items.

#### 15. Derivative

The Group does not have any derivative for the current quarter and financial 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 financial 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 23% or RM15.8 million, from RM68.6 million in the preceding year's first quarter ("1QFY2022") to RM52.8 million for the current quarter ended 31 October 2022 ("1QFY2023"). This was largely attributed to reduced volumes for burn-in and testing services, and electronic manufacturing services ("EMS") which was scaled down.

Interest income was lower by 20% or RM0.2 million, following lower placement for fixed deposits as a result of partial usage of internal funds for capital expenditure.

Other income decreased by 45% or RM2.3 million, mainly due to absence of fair value gain on investment securities of RM4.6 million reported in the preceding year correspondingly quarter; partially offset by gain on disposal of machinery and test equipment, and spares, totalling RM2.2 million.

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress decreased by 35% or RM2.5 million, in line with reduced EMS activities.

Employee benefits expense was lower by 4% or RM0.9 million, in line with reduced EMS activities.

Depreciation of property, plant and equipment was lower by 34% or RM4.9 million, as certain machinery and test equipment were fully depreciated.

Finance costs were higher by RM0.2 million, following increased borrowings to fund capital expenditure.

Consequently, the Group reported a loss before tax of RM1.7 million, from a profit before tax of RM8.7 million.

### Analysis of financial position

Property, plant and equipment was higher by 15% or RM25.4 million, from RM170.6 million as at 31 July 2022 to RM196.0 million as at 31 October 2022. The increase was primarily due to capital expenditure of RM36.3 million, offset by depreciation charge of RM9.6 million.

Deferred tax assets increased by 12% or RM0.5 million, from RM4.4 million to RM5.0 million, as a result of higher deductible temporary differences arising from unutilised tax benefits.

Current trade and other receivables were lower by 7% or RM3.5 million, from RM48.3 million to RM44.7 million. This was largely due to lower sales in Q1FY2023 as compared to the previous fourth quarter ended 31 July 2022.

Prepayment decreased by RM1.2 million, from RM4.4 million to RM3.2 million, upon subsequent deliveries of purchased machinery and test equipment.

Investment securities were higher by 14% or RM1.7 million, from RM12.4 million to RM14.1 million, as a result of additional investments of RM1.8 million.

Cash and short-term deposits declined by 5% or RM9.7 million, from RM176.9 million to RM167.2 million, representing net cash outflows to fund the purchases of property, plant and equipment.

Trade and other payables were higher by 66% or RM17.1 million, from RM26.1 million to RM43.2 million, largely due to increased payables for the purchases of machinery and test equipment.

The Group's loans and borrowings decreased by 6% or RM1.6 million, from RM27.3 million to RM25.7 million, primarily due to net repayment of bank loans of RM0.6 million and repayment of lease liabilities of RM1.0 million.

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

The Group reported a loss before tax of RM1.7 million in 1QFY2023, compared to loss before tax of RM2.6 million in the preceding quarter ended 31 July 2022. The loss was reduced by RM0.9 million, represented by lower fair value loss on investment securities of RM0.7 million and net exchange gain of RM0.3 million.

## 20. Prospects

The global economic growth was forecast to slow down from 6.0% in 2021 to 3.2% in 2022, reflecting the macroeconomic headwinds, persistently high inflationary pressures, tightening of monetary policies, the impact from ongoing war in Ukraine and the intermittent COVID-19 lockdowns in China.

The semiconductor industry is expecting a slower growth of 7.4% in 2022 from 26.3% in the previous year. This is due to a softening in the memory market and reduced consumer spendings on electronic products such as smartphones and personal computers; albeit still firm demand from the automotive and data centre markets.

Against these challenging macroeconomic developments and a slowing down in the overall semiconductor market, the Group is focused in supporting its customers to fulfil outstanding backlogs in automotive devices, whilst realigning its cost structure to the sharp decline in the non-automotive business.

## 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
	31/10/2022	31/10/2021	31/10/2022	31/10/2021
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	538	1,244	538	1,244
Deferred tax				
- Relating to origination and reversal of temporary differences	(691)	(111)	(691)	(111)
Income tax (credit)/expense	<u>(153)</u>	<u>1,133</u>	<u>(153)</u>	<u>1,133</u>

The tax credit for the current financial period arose from certain deferred tax assets that were recognised on unutilised tax benefits.

## **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 and Proposed New Shareholders' Mandate for additional Recurrent Related Party Transaction of a revenue or trading nature (collectively "Proposed Shareholders' Mandate") at the Company's Annual General Meeting to be held on 12 January 2023. A circular which set out the details of the Proposed Shareholders' Mandate had been issued to shareholders of the Company on 27 October 2022.

## **24. Group borrowings and debt securities**

	<b>As at 31/10/2022 RM'000</b>	<b>As at 31/07/2022 RM'000</b>
Bank loans*	21,456	22,054
Lease liabilities	4,222	5,230
	<u>25,678</u>	<u>27,284</u>
Repayable within 12 months	13,105	11,890
Repayable after 12 months	12,573	15,394
	<u>25,678</u>	<u>27,284</u>
Total loans and borrowings denominated in:		
Renminbi	2,342	1,045
Ringgit Malaysia	23,336	26,239
	<u>25,678</u>	<u>27,284</u>

\* Included in bank loans of RM1,548,000 were secured by corporate guarantee provided by the Company as at 31/10/2022 (31/7/2022: RM nil).

## **25. Changes in material litigation**

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

## **26. Earnings per share**

Basic (loss)/earnings per ordinary share amounts are calculated by dividing (loss)/profit net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the current financial period.

	<b>Individual Period</b>		<b>Cumulative Period</b>	
	<b>Current year quarter</b>	<b>Preceding year corresponding quarter</b>	<b>Current year to date</b>	<b>Preceding year corresponding year to date</b>
	<b>31/10/2022</b>	<b>31/10/2021</b>	<b>31/10/2022</b>	<b>31/10/2021</b>
(Loss)/profit, net of tax (RM'000)	(1,540)	7,517	(1,540)	7,517
Weighted average number of ordinary shares ('000)	43,014.5	43,014.5	43,014.5	43,014.5
Basic (loss)/earnings per share (sen)	<u>(3.6)</u>	<u>17.5</u>	<u>(3.6)</u>	<u>17.5</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: 17 November 2022

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**SUMMARY OF KEY FINANCIAL INFORMATION**  
**FOR THE FIRST QUARTER ENDED 31 OCTOBER 2022**

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER  (31/10/2022) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2021) RM'000	CURRENT YEAR TO DATE (31/10/2022) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2021) RM'000
1.	Revenue	52,764	68,583	52,764	68,583
2.	(Loss)/profit before tax	(1,693)	8,650	(1,693)	8,650
3.	(Loss)/profit for the period	(1,540)	7,517	(1,540)	7,517
4.	(Loss)/profit attributable to ordinary equity holders of the Company	(1,540)	7,517	(1,540)	7,517
5.	Basic (loss)/earnings per share (sen)	(3.58)	17.48	(3.58)	17.48
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)	8.3708	8.4241

**ADDITIONAL INFORMATION**

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		CURRENT YEAR QUARTER  (31/10/2022) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2021) RM'000	CURRENT YEAR TO DATE (31/10/2022) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2021) RM'000
1.	Gross interest income	777	971	777	971
2.	Gross interest expense	314	128	314	128