

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 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 OCTOBER 2023

	Individual period			Cumulative period		
	Current year	Preceding year	% Change	Current year	Preceding year	% Change
	quarter	corresponding quarter		to date	corresponding year to date	
(31/10/2023)	(31/10/2022)		(31/10/2023)	(31/10/2022)		
	RM'000	RM'000		RM'000	RM'000	
Revenue	63,531	52,764	20%	63,531	52,764	20%
Other items of income						
Interest income	1,724	777	>100%	1,724	777	>100%
Dividend income	37	65	(43%)	37	65	(43%)
Other income	2,136	2,720	(21%)	2,136	2,720	(21%)
Items of expenses						
Consumables used	(5,181)	(4,571)	13%	(5,181)	(4,571)	13%
Employee benefits expense	(25,083)	(24,612)	2%	(25,083)	(24,612)	2%
Depreciation of property, plant and equipment	(11,917)	(9,631)	24%	(11,917)	(9,631)	24%
Finance costs	(1,081)	(314)	>100%	(1,081)	(314)	>100%
Other expenses	(22,416)	(18,891)	19%	(22,416)	(18,891)	19%
Profit/(loss) before tax	1,750	(1,693)	NM	1,750	(1,693)	NM
Income tax (expense)/credit	(834)	153	NM	(834)	153	NM
Profit/(loss), net of tax	916	(1,540)	NM	916	(1,540)	NM
Other comprehensive income:						
Item to be reclassified						
subsequently to profit or loss						
Foreign currency translation gain/(loss)	1,086	(752)	NM	1,086	(752)	NM
Total comprehensive income/(loss)						
for the period, net of tax	2,002	(2,292)	NM	2,002	(2,292)	NM
Earnings/(loss) per share attributable to owners of the Company (sen):						
- Basic	2.1	(3.6)	NM	2.1	(3.6)	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 2023 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 2023

	<u>As at end of current quarter 31/10/2023</u> RM'000	<u>As at preceding financial year end 31/07/2023</u> RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	181,165	179,574
Deferred tax assets	5,716	5,461
Other receivables	521	269
	<u>187,402</u>	<u>185,304</u>
Current assets		
Inventories	1,962	1,488
Trade and other receivables	54,942	53,234
Prepayments	4,377	4,304
Investment securities	14,127	10,767
Tax recoverable	5,844	6,026
Cash and short-term deposits	219,929	223,928
	<u>301,181</u>	<u>299,747</u>
Total assets	<u>488,583</u>	<u>485,051</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	19,673	18,587
Retained earnings	293,396	292,480
Total equity	<u>356,747</u>	<u>354,745</u>
Non-current liabilities		
Loans and borrowings	53,123	56,450
Defined benefit liabilities	2,641	2,553
Deferred tax liabilities	6,906	6,256
	<u>62,670</u>	<u>65,259</u>
Current liabilities		
Trade and other payables	29,644	25,236
Defined benefit liabilities	2,550	2,550
Loans and borrowings	36,972	37,261
	<u>69,166</u>	<u>65,047</u>
Total liabilities	<u>131,836</u>	<u>130,306</u>
Total equity and liabilities	<u>488,583</u>	<u>485,051</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.29</u>	<u>8.25</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 2023 and the accompanying explanatory notes attached to the interim financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 OCTOBER 2023

	< ----- Attributable to owners of the Company ----- >					Total equity
	< ----- Non-distributable ----- >				Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
FY2024						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2023	43,678	11,718	4,629	2,240	292,480	354,745
Profit for the period	-	-	-	-	916	916
Other comprehensive income for the period	-	1,086	-	-	-	1,086
As at 31 October 2023	43,678	12,804	4,629	2,240	293,396	356,747

	< ----- Attributable to owners of the Company ----- >					Total equity
	< ----- Non-distributable ----- >				Distributable	
	Share capital	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
FY2023						
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
As at 1 August 2022	43,678	13,573	4,629	2,240	298,238	362,358
Loss for the period	-	-	-	-	(1,540)	(1,540)
Other comprehensive loss for the period	-	(752)	-	-	-	(752)
As at 31 October 2022	43,678	12,821	4,629	2,240	296,698	360,066

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 2023 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 2023

	Current year to date 31/10/2023	Preceding year corresponding year to date 31/10/2022
	RM'000	RM'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	1,750	(1,693)
Adjustments for:		
Depreciation of property, plant and equipment	11,917	9,631
Plant and equipment written off	15	-
Net gain on disposal of property, plant and equipment	(833)	(1,586)
Write-back of inventories	-	(738)
Net fair value loss on investment securities	14	74
Unrealised exchange (gain)/loss	(262)	360
Net gain on derivatives	(5)	-
Dividend income	(37)	(65)
Interest income	(1,724)	(777)
Finance costs	1,081	314
Operating cash flows before changes in working capital	11,916	5,520
(Increase)/decrease in inventories	(474)	630
(Increase)/decrease in prepayments and receivables	(695)	4,687
Decrease in payables	(2,407)	(4,124)
Cash flows from operations	8,340	6,713
Income taxes paid, net	(192)	(430)
Interest paid	(1,056)	(289)
Interest received	1,190	827
Net cash flows from operating activities	8,282	6,821
INVESTING ACTIVITIES		
Decrease in short-term deposits with maturity more than three months	-	25,500
Purchase of investment securities	(3,374)	(1,755)
Dividend income	37	65
Purchase of property, plant and equipment	(1,051)	(15,319)
Proceeds from disposal of property, plant and equipment	833	2,538
Net cash flows (used in)/from investing activities	(3,555)	11,029
FINANCING ACTIVITIES		
Repayment of principal portion of lease liabilities	(1,025)	(988)
Repayment of bank loans	(8,021)	(2,146)
Proceeds from bank loans	-	1,548
Dividend paid on ordinary shares	-	(645)
Net cash flows used in financing activities	(9,046)	(2,231)
Net (decrease)/increase in cash and cash equivalents	(4,319)	15,619
Effect of exchange rate changes on cash and cash equivalents	320	189
Cash and cash equivalents at beginning of the period	99,428	82,353
Cash and cash equivalents at end of the period	95,429	98,161

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Cash and cash equivalents comprised the following:

	Current year to date 31/10/2023 RM'000	Preceding year corresponding year to date 31/10/2022 RM'000
Cash at banks and on hand	22,128	22,656
Deposits with licensed banks	197,801	144,505
Cash and short-term deposits	219,929	167,161
Less: Short-term deposits with maturity more than three months	(124,500)	(69,000)
Cash and cash equivalents	95,429	98,161

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2023 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 2023. 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 2023.

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 2023 except that on 1 August 2023, the Group adopted the MFRSs, amendments and interpretations that are effective for annual periods beginning on or after 1 January 2023 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.

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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 RM13,087,000, and disposed (including write-off) property, plant and equipment of net book value amounting to RM15,000.

12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/10/2023</u>	<u>31/10/2022</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	2,598	2,185
Rental received/receivable from related company	-	14
Purchases of equipment (including consumables) and related software from related companies	33	769

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 RM8,426,000 as at 31 October 2023.

Included in the commitments was an amount of RM27,000 relating to purchases from certain related companies.

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14. Profit/(loss) before tax

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/10/2023	31/10/2022	31/10/2023	31/10/2022
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) before tax is arrived at:				
After charging:				
Net fair value loss on investment securities	14	74	14	74
And crediting:				
Write-back of inventories	-	738	-	738
Net gain on disposal of property, plant and equipment	833	1,586	833	1,586
Net foreign exchange gain	984	284	984	284
Net gain on derivatives	5	-	5	-

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

15. Derivatives

	As at 31/10/2023	As at 31/07/2023
	RM'000	RM'000
Financial assets:		
Forward currency contracts	5	-

The Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group does not apply hedge accounting.

Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing model, using present value calculations. The model incorporates various inputs including foreign exchange spot and forward rates as well as forward rate curves (i.e. Level 2).

As at 31 October 2023, the Group held three forward currency contracts, with total outstanding notional amounts of RM6,216,000. The outstanding forward currency contracts mature in 2 to 3 months.

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.

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17. Segment information

No segment reporting has been prepared as the Group has only one operating segment, namely burn-in and testing services.

18. Detailed analysis of Group performance

Analysis of the performance for the current quarter

The Group's revenue was higher by 20% or RM10.8 million, from RM52.8 million in the preceding year's first quarter ("1QFY2023") to RM63.5 million for the current quarter ended 31 October 2023 ("1QFY2024"). This was largely attributed to higher burn-in and testing sales generated from the newly invested capital expenditure.

Interest income increased by RM0.9 million, following higher placement for fixed deposits at higher interest rates.

Other income decreased by 21% or RM0.6 million, mainly due to lower gain on disposal of machinery and test equipment, and spares, by RM1.2 million; partially offset by higher net foreign exchange gain of RM0.7 million.

Consumables used increased by 13% or RM0.6 million, in line with higher sales.

Employee benefits expense rose by 2% or RM0.5 million, due to higher headcounts to support higher operational requirements.

Depreciation of property, plant and equipment was higher by 24% or RM2.3 million as additional machinery and test equipment were commissioned for use in the production.

Finance costs increased by RM0.8 million, following higher borrowings as compared to that in 1QFY2023.

Other expenses were higher by 19% or RM3.5 million due to absence of inventories write-back of RM0.7 million recorded in 1QFY2023. In addition, the increase in other expenses, in support of higher revenue, was attributed to utility costs, management fee and recruitment-related costs; which rose by RM2.1 million, RM0.4 million and RM0.3 million respectively.

Consequently, the Group reported a profit before tax of RM1.8 million in 1QFY2024, from a loss before tax of RM1.7 million in 1QFY2023.

Analysis of financial position

Property, plant and equipment was higher by 1% or RM1.6 million, from RM179.6 million as at 31 July 2023 to RM181.2 million as at 31 October 2023. The increase was primarily due to additions of RM13.1 million, offset by depreciation charge of RM11.9 million.

Inventories increased by 32% or RM0.5 million, from RM1.5 million to RM2.0 million, in support of higher operational requirements.

Total trade and other receivables increased by 4% or RM2.0 million, from RM53.5 million to RM55.5 million. This was largely due to higher trade receivables arising from improved sales in 1QFY2024 as compared to the previous fourth quarter ended 31 July 2023, and higher accrued interest income.

Investment securities were higher by 31% or RM3.4 million, from RM10.8 million to RM14.1 million, as a result of additional investments of RM3.4 million.

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Cash and short-term deposits declined by 2% or RM4.0 million, from RM223.9 million to RM219.9 million, represented net cash outflows in investing activities, after cash inflows from operating activities were used to repay loans and borrowings.

Trade and other payables were higher by 18% or RM4.6 million, from RM25.2 million to RM29.8 million, largely due to increased payables for the purchases of machinery and test equipment.

Total loans and borrowings decreased by 4% or RM3.6 million, from RM93.7 million to RM90.1 million, primarily due to repayment of bank loans of RM8.0 million; partially offset by net increase in lease liabilities of RM4.4 million.

Deferred tax liabilities increased by 10% or RM0.7 million, from RM6.3 million to RM6.9 million, as a result of higher taxable temporary differences arising from the utilisation of capital allowances.

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

The Group reported a profit before tax of RM1.8 million in 1QFY2024, compared to RM1.5 million profit before tax reported in the preceding quarter ended 31 July 2023. As revenue increased, the operations were also scaled up. The net improvement in profit of RM0.3 million was driven by the improved productions, coupled with higher net interest income.

20. Prospects

The global economic growth forecast¹ for 2023 at 3%, was adjusted 0.1% downwards to 2.9% for 2024, reflecting a slow recovery, from 3.5% in 2022.

The semiconductor industry revenue was forecasted to contract by 10.9% in 2023 to USD534.5 billion, primarily caused by oversupply of memory chips and weak consumer and computer markets. However, the industry outlook in 2024 is expected to rebound, with a revised estimated growth of 16.8% to USD624.4 billion.

The Group is closely monitoring the developments in China-US trade tensions which affect our supply chain. Amidst stubborn inflationary pressures evident in higher labour and energy costs, the Group is focusing its efforts to scale up production with advance testers for our automotive 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.

¹ Based on International Monetary Fund's October 2023 projection, with previous projection in July 2023.

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22. Taxation

	Individual Period		Cumulative Period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding year to date
	31/10/2023	31/10/2022	31/10/2023	31/10/2022
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	374	538	374	538
Deferred tax				
- Relating to origination and reversal of temporary differences	460	(691)	460	(691)
Income tax expense/(credit)	<u>834</u>	<u>(153)</u>	<u>834</u>	<u>(153)</u>

The high effective tax rate was mainly due to deferred tax assets not recognised on unutilised business losses.

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 at the Company's Annual General Meeting to be held on 11 January 2024. A circular which set out the details of the Proposed Shareholders' Mandate had been issued to shareholders of the Company on 27 October 2023.

24. Group borrowings and debt securities

	As at 31/10/2023	As at 31/07/2023
	RM'000	RM'000
Amount repayable within 12 months		
Secured	3,216	2,884
Unsecured	<u>33,756</u>	<u>34,377</u>
	<u>36,972</u>	<u>37,261</u>
Repayable after 12 months		
Secured	5,738	1,665
Unsecured	<u>47,385</u>	<u>54,785</u>
	<u>53,123</u>	<u>56,450</u>
Total loans and borrowings	<u>90,095</u>	<u>93,711</u>

Included in the loans and borrowings as at 31 October 2023 was an amount of RM5,245,000 (31 July 2023: RM78,000) denominated in Renminbi.

25. Changes in material litigation

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

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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 financial period.

	<u>Individual Period</u>		<u>Cumulative Period</u>	
	<u>Current year quarter</u>	<u>Preceding year corresponding quarter</u>	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/10/2023</u>	<u>31/10/2022</u>	<u>31/10/2023</u>	<u>31/10/2022</u>
Profit/(loss), net of tax (RM'000)	916	(1,540)	916	(1,540)
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>2.1</u>	<u>(3.6)</u>	<u>2.1</u>	<u>(3.6)</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: 16 November 2023