

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Registration No. : 197201001376 (13022-A)

UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2024

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 JANUARY 2024

	Individual period			Cumulative period		
	Current year quarter (31/01/2024) RM'000	Preceding year corresponding quarter (31/01/2023) RM'000	% Change	Current year to date (31/01/2024) RM'000	Preceding year corresponding year to date (31/01/2023) RM'000	% Change
Revenue	61,768	55,989	10%	125,299	108,753	15%
Other items of income						
Interest income	1,692	1,140	48%	3,416	1,917	78%
Dividend income	74	94	(21%)	111	159	(30%)
Other income	839	1,864	(55%)	2,788	4,226	(34%)
Items of expenses						
Consumables used	(4,565)	(4,541)	1%	(9,746)	(9,112)	7%
Employee benefits expense	(23,810)	(24,075)	(1%)	(48,893)	(48,687)	0%
Depreciation of property, plant and equipment	(12,272)	(9,805)	25%	(24,189)	(19,436)	24%
Finance costs	(1,057)	(470)	>100%	(2,138)	(784)	>100%
Other expenses	(22,111)	(20,931)	6%	(44,340)	(39,464)	12%
Profit/(loss) before tax	558	(735)	NM	2,308	(2,428)	NM
Income tax (expense)/credit	(420)	15	NM	(1,254)	168	NM
Profit/(loss), net of tax	138	(720)	NM	1,054	(2,260)	NM
Other comprehensive income:						
Item that will not be reclassified to profit or loss						
Remeasurement gain arising from defined benefit liabilities, net of tax	144	-	NM	144	-	NM
Item to be reclassified subsequently to profit or loss						
Foreign currency translation gain/(loss)	417	(1,112)	NM	1,503	(1,864)	NM
Other comprehensive income for the period, net of tax	561	(1,112)	NM	1,647	(1,864)	NM
Total comprehensive income/(loss) for the period, net of tax	699	(1,832)	NM	2,701	(4,124)	NM
Earnings/(loss) per share attributable to owners of the Company (sen):						
- Basic	0.3	(1.7)	NM	2.5	(5.3)	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 JANUARY 2024

	As at end of current quarter 31/01/2024 RM'000	As at preceding financial year end 31/07/2023 RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	172,359	179,574
Deferred tax assets	6,155	5,461
Other receivables	527	269
	<u>179,041</u>	<u>185,304</u>
Current assets		
Inventories	1,677	1,488
Trade and other receivables	46,695	53,234
Prepayments	3,150	4,304
Investment securities	15,351	10,767
Tax recoverables	5,727	6,026
Cash and short-term deposits	218,978	223,928
	<u>291,578</u>	<u>299,747</u>
Total assets	<u>470,619</u>	<u>485,051</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,678	43,678
Other reserves	20,090	18,587
Retained earnings	291,097	292,480
Total equity	<u>354,865</u>	<u>354,745</u>
Non-current liabilities		
Loans and borrowings	44,497	56,450
Defined benefit liabilities ¹	5,133	2,553
Deferred tax liabilities	7,340	6,256
	<u>56,970</u>	<u>65,259</u>
Current liabilities		
Trade and other payables	22,694	25,236
Derivatives	225	-
Defined benefit liabilities ¹	-	2,550
Loans and borrowings	35,865	37,261
	<u>58,784</u>	<u>65,047</u>
Total liabilities	<u>115,754</u>	<u>130,306</u>
Total equity and liabilities	<u>470,619</u>	<u>485,051</u>
Net assets per share attributable to owners of the Company (RM)	<u>8.25</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.

¹ Represent the defined benefit obligations for eligible employees' retirement.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 JANUARY 2024

	< ----- 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	-	-	-	-	1,054	1,054
Other comprehensive income for the period	-	1,503	-	-	144	1,647
Transaction with owners						
Dividends on ordinary shares	-	-	-	-	(2,581)	(2,581)
As at 31 January 2024	43,678	13,221	4,629	2,240	291,097	354,865

	< ----- 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	-	-	-	-	(2,260)	(2,260)
Other comprehensive loss for the period	-	(1,864)	-	-	-	(1,864)
Transactions with owners						
Dividends on ordinary shares	-	-	-	-	(2,581)	(2,581)
As at 31 January 2023	43,678	11,709	4,629	2,240	293,397	355,653

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 JANUARY 2024

	Current year to date 31/01/2024 RM'000	Preceding year corresponding year to date 31/01/2023 RM'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	2,308	(2,428)
Adjustments for:		
Depreciation of property, plant and equipment	24,189	19,436
Plant and equipment written off	16	-
Net gain on disposal of property, plant and equipment	(835)	(1,587)
Write-back of inventories	-	(699)
Net fair value gain on investment securities	(303)	(1,560)
Impairment of trade receivables	-	95
Unrealised exchange (gain)/loss	(454)	64
Unrealised loss on derivatives	225	-
Dividend income	(111)	(159)
Interest income	(3,416)	(1,917)
Finance costs	2,138	784
Operating cash flows before changes in working capital	23,757	12,029
(Increase)/decrease in inventories	(189)	833
Decrease/(increase) in prepayments and receivables	8,558	(1,544)
Decrease in payables	(5,820)	(3,239)
Cash flows from operations	26,306	8,079
Income taxes paid, net	(475)	(1,074)
Interest paid	(2,124)	(779)
Interest received	3,064	1,708
Net cash flows from operating activities	26,771	7,934
INVESTING ACTIVITIES		
(Increase)/decrease in short-term deposits with maturity more than three months	(2,000)	13,000
Purchase of investment securities	(4,281)	(2,169)
Dividend income	111	159
Purchase of property, plant and equipment	(10,160)	(24,763)
Proceeds from disposal of property, plant and equipment	835	2,539
Net cash flows used in investing activities	(15,495)	(11,234)
FINANCING ACTIVITIES		
Repayment of principal portion of lease liabilities	(2,050)	(1,963)
Repayment of bank loans	(16,794)	(6,962)
Proceeds from bank loans	-	22,503
Dividend paid on ordinary shares	-	(645)
Net cash flows (used in)/from financing activities	(18,844)	12,933
Net (decrease)/increase in cash and cash equivalents	(7,568)	9,633
Effect of exchange rate changes on cash and cash equivalents	618	(933)
Cash and cash equivalents at beginning of the period	99,428	82,353
Cash and cash equivalents at end of the period	92,478	91,053

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Cash and cash equivalents comprised the following:

	Current year to date 31/01/2024 RM'000	Preceding year corresponding year to date 31/01/2023 RM'000
Cash at banks and on hand	26,897	23,254
Deposits with licensed banks	192,081	149,299
Cash and short-term deposits	218,978	172,553
Less: Short-term deposits with maturity more than three months	(126,500)	(81,500)
Cash and cash equivalents	92,478	91,053

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 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 year.

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.

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8. Dividends

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/01/2024</u>	<u>31/01/2023</u>
	<u>RM'000</u>	<u>RM'000</u>
Recognised during the financial year to date		
First and final tax exempt dividend for 2023 at 6 sen (2022: 6 sen) per ordinary share, paid on 8 February 2024	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 RM16,412,000, and disposed (including write-off) property, plant and equipment of net book value amounting to RM16,000.

12. Significant related party transactions

	<u>Current year to date</u>	<u>Preceding year corresponding year to date</u>
	<u>31/01/2024</u>	<u>31/01/2023</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	5,504	4,175
Dividends paid/payable to holding company	1,250	1,250
Rental received/receivable from related company	-	18
Purchases of equipment (including consumables) and related software from related companies	60	774

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.

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13. Significant commitments for purchase of property, plant and equipment

Commitments for purchases of property, plant and equipment amounted to RM8,279,000 as at 31 January 2024.

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
	31/01/2024	31/01/2023	31/01/2024	31/01/2023
	RM'000	RM'000	RM'000	RM'000
Profit/(loss) before tax is arrived at ² :				
After charging:				
Write-down of inventories	-	39	-	-
Plant and equipment written off	1	-	16	-
Impairment of trade receivables	-	95	-	95
Net foreign exchange loss	121	784	-	500
Net loss on derivatives	53	-	48	-
And crediting:				
Write-back of inventories	-	-	-	699
Net gain on disposal of property, plant and equipment	2	1	835	1,587
Net fair value gain on investment securities	317	1,634	303	1,560
Net foreign exchange gain	-	-	858	-

² Save as disclosed in the interim financial statements and the accompanying explanatory notes, the other items as required under Part A of Appendix 9B, Notes 16 of the Bursa Securities Berhad's Main Market Listing Requirements are not applicable.

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15. Derivatives

	<u>As at</u> <u>31/01/2024</u> <u>RM'000</u>	<u>As at</u> <u>31/07/2023</u> <u>RM'000</u>
Financial liabilities:		
Forward currency contracts	<u>225</u>	<u>-</u>

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 January 2024, the Group held fifteen forward currency contracts, with total outstanding notional amounts of RM16,608,000. The outstanding forward currency contracts mature within 3 months.

16. Fair value changes of financial liabilities

Apart from derivatives, 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 and testing.

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18. Detailed analysis of Group performance

Analysis of the performance for the current quarter

The Group's revenue was higher by 10% or RM5.8 million, from RM56.0 million in the preceding year's second quarter ("2QFY2023") to RM61.8 million for the current quarter ended 31 January 2024 ("2QFY2024"). This was largely attributed to higher sales generated from processing automotive chips.

Interest income increased by 48% or RM0.6 million, following higher placement for fixed deposits at higher interest rates.

Other income decreased by 55% or RM1.0 million, mainly due to lower net fair value gain on investment securities by RM1.3 million.

Depreciation of property, plant and equipment was higher by 25% or RM2.5 million, as additional machinery and test equipment were commissioned for use in the production.

Finance costs increased by RM0.6 million, primarily due to higher borrowings as compared to that of 2QFY2023.

Other expenses were higher by 6% or RM1.2 million, mainly due to higher utility costs by RM1.1 million following increased electricity tariff rates as compared to that of 2QFY2023.

Consequently, the Group reported a profit before tax of RM0.6 million in 2QFY2024, as compared with a loss before tax of RM0.7 million in 2QFY2023.

Analysis of the performance for the current financial year to date

The Group's revenue was higher by 15% or RM16.5 million, from RM108.8 million in the preceding year's corresponding period, to RM125.3 million for the current financial period ended 31 January 2024. This was largely attributed to higher sales generated from processing automotive chips.

Interest income increased by 78% or RM1.5 million, following higher placement for fixed deposits at higher interest rates.

Other income decreased by 34% or RM1.4 million, mainly due to lower fair value gain on investment securities by RM1.3 million and lower gain on disposal of machinery and test equipment by RM0.8 million; partially offset by the net foreign exchange gain of RM0.9 million.

Consumables used increased by 7% or RM0.6 million, to support higher sales.

Depreciation of property, plant and equipment was higher by 24% or RM4.8 million, as additional machinery and test equipment were commissioned for use in the production.

Finance costs rose by RM1.4 million, following higher borrowings as compared to that of the preceding year's corresponding period.

Other expenses increased by 12% or RM4.9 million, mainly attributable to higher utility costs due to increase in electricity tariff rates and higher management fee in support of higher sales, as well as absence of inventories write-back of RM0.7 million.

Consequently, the Group reported a profit before tax of RM2.3 million in the current reporting period, from a loss before tax of RM2.4 million in the preceding year's corresponding period.

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Analysis of financial position

Property, plant and equipment was lower by 4% or RM7.2 million, from RM179.6 million as at 31 July 2023 to RM172.4 million as at 31 January 2024. The decrease was primarily due to depreciation charge of RM24.2 million, offset by additions of RM16.4 million.

Deferred tax assets increased by 13% or RM0.7 million, from RM5.5 million to RM6.2 million, as a result of higher deductible temporary differences arising from unutilised tax benefits.

Total trade and other receivables were lower by 12% or RM6.3 million, from RM53.5 million to RM47.2 million. This was largely due to improved trade collections.

Prepayments decreased by 27% or RM1.2 million, from RM4.3 million to RM3.2 million, upon subsequent deliveries of newly purchased machinery and test equipment.

Investment securities were higher by 43% or RM4.6 million, from RM10.8 million to RM15.4 million, largely as a result of additional investments of RM4.3 million.

Cash and short-term deposits declined by 2% or RM5.0 million, from RM223.9 million to RM219.0 million, representing cash outflows to fund the purchase of investment securities, after cash generated from operating activities were used to repay loans and borrowings and fund the capital expenditure.

Trade and other payables were lower by 10% or RM2.5 million, from RM25.2 million to RM22.7 million, largely due to the settlement of purchases of machinery and test equipment and reduction in accrued operating expenses and sundry payables, offset by dividend payable.

Total loans and borrowings decreased by 14% or RM13.3 million, from RM93.7 million to RM80.4 million, primarily due to repayment of bank loans of RM16.8 million; partially offset by net increase in lease liabilities of RM3.4 million.

Deferred tax liabilities increased by 17% or RM1.1 million, from RM6.3 million to RM7.3 million, as a result of higher taxable temporary differences arising from the utilisation of capital allowances.

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

The Group reported a profit before tax of RM0.6 million in 2QFY2024, compared to profit before tax of RM1.8 million reported in the preceding quarter ended 31 October 2023 (“1QFY2024”). The reduced profit by RM1.2 million was mainly attributed to lower revenue by RM1.8 million following reduced volume; foreign exchange movement, from a foreign exchange gain of RM1.0 million in 1QFY2024 to a foreign exchange loss of RM0.1 million in 2QFY2024; partially offset by lower consumables used by RM0.6 million and employee benefits expense by RM1.3 million, in alignment to operational requirements.

20. Prospects

According to International Monetary Fund’s January 2024 outlook report, global economic growth in 2024 is expected to remain at 3.1%; similar to its report in 2023. This report further commented that this reflected the underlying economic resilience on the back of restrictive monetary policies, withdrawal of fiscal support and low underlying productivity growth.

The worldwide semiconductor revenue in 2023, estimated at USD533 billion, is a decrease of 11.1% from 2022, primarily caused by reduced demand in smartphones, computers and servers markets, and oversupply inventory levels; despite healthy growth notably in the automotive market segment and artificial intelligence applications. The industry outlook is expected to rebound, with a revised estimated growth of 17% to USD624 billion in 2024.

With the majority of our recent equipment investments now certified for volume production, our Group is well equipped to meet our customers’ changing needs for more advanced chips. Additionally, the Group is optimistic that the short-term softened demand in the non-automotive sector is likely to benefit from the surge in chip processing demands in data centres and artificial intelligence applications.

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.

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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
	31/01/2024	31/01/2023	31/01/2024	31/01/2023
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	400	(1,123)	774	(585)
Deferred tax				
- Relating to origination and reversal of temporary differences	20	1,108	480	417
Income tax expense/(credit)	<u>420</u>	<u>(15)</u>	<u>1,254</u>	<u>(168)</u>

The high effective tax rates for the current quarter and current year to date as compared to the statutory tax rate were mainly due to deferred tax assets not recognised on unutilised business losses.

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 31/01/2024	As at 31/07/2023
	RM'000	RM'000
Amount repayable within 12 months		
Secured	2,756	2,884
Unsecured	<u>33,109</u>	<u>34,377</u>
	<u>35,865</u>	<u>37,261</u>
Amount repayable after 12 months		
Secured	5,238	1,665
Unsecured	<u>39,259</u>	<u>54,785</u>
	<u>44,497</u>	<u>56,450</u>
Total loans and borrowings	<u>80,362</u>	<u>93,711</u>

Included in the loans and borrowings as at 31 January 2024 was an amount of RM5,061,000 (31 July 2023: RM78,000) denominated in Renminbi.

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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 net of tax, attributable to owners of the Company by the weighted average number of ordinary shares outstanding during the current reporting 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>31/01/2024</u>	<u>31/01/2023</u>	<u>31/01/2024</u>	<u>31/01/2023</u>
Profit/(loss), net of tax (RM'000)	138	(720)	1,054	(2,260)
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>0.3</u>	<u>(1.7)</u>	<u>2.5</u>	<u>(5.3)</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: 7 March 2024