

**KESM INDUSTRIES BERHAD**

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FOURTH QUARTERLY REPORT ON CONSOLIDATED RESULTS  
FOR THE FINANCIAL QUARTER ENDED 31 JULY 2012**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 July 2012.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE QUARTER ENDED 31 JULY 2012**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/07/2012) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/07/2011) RM'000	CURRENT YEAR TO DATE (31/07/2012) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/07/2011) RM'000
<b>Revenue</b>	69,724	61,349	236,940	248,113
<b>Other items of income</b>				
Interest income	636	515	2,565	1,298
Dividend income	127	96	417	509
Other income	1,297	1,906	9,686	3,775
<b>Items of expense</b>				
Raw materials and consumables used	(16,236)	(20,125)	(52,383)	(66,263)
Changes in work-in-progress and finished goods	(2,485)	3,464	(2,665)	3,631
Employee benefits expense	(19,478)	(16,894)	(66,641)	(61,685)
Depreciation of property, plant and equipment	(13,944)	(14,155)	(56,313)	(51,972)
Impairment of property, plant and equipment	-	(250)	-	(250)
Finance costs	(734)	(778)	(3,318)	(3,256)
Other expenses	(18,409)	(11,293)	(56,307)	(51,184)
Profit before tax	498	3,835	11,981	22,716
Income tax expense	(1,664)	(598)	(4,598)	(6,037)
(Loss)/profit net of tax	(1,166)	3,237	7,383	16,679
Other comprehensive income:				
Foreign currency translation	113	(167)	2,830	(1,176)
Other comprehensive income for the period, net of tax	113	(167)	2,830	(1,176)
Total comprehensive income for the period	(1,053)	3,070	10,213	15,503
(Loss)/profit attributable to:				
Owners of the parent	(2,582)	2,144	4,161	12,382
Non-controlling interests	1,416	1,093	3,222	4,297
	(1,166)	3,237	7,383	16,679
Total comprehensive income attributable to:				
Owners of the parent	(2,469)	1,977	6,991	11,206
Non-controlling interests	1,416	1,093	3,222	4,297
	(1,053)	3,070	10,213	15,503
(Loss)/earnings per share attributable to owners of the parent (sen per share):				
- Basic	(6.0)	5.0	9.7	28.8

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2011 and the accompanying explanatory notes attached to the interim financial statements.

**KESM INDUSTRIES BERHAD**

(Incorporated in Malaysia)

Company No : 13022-A

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 JULY 2012**

	<u>AS AT END OF CURRENT QUARTER 31/07/2012</u> RM'000	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2011</u> RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	150,273	162,768
Deferred tax assets	5,304	5,320
	<u>155,577</u>	<u>168,088</u>
<b>Current assets</b>		
Inventories	20,574	22,999
Trade and other receivables	65,097	67,128
Prepayments	1,772	1,203
Tax recoverable	1,064	1,106
Investment securities	10,631	11,315
Cash and bank balances	113,756	100,526
	<u>212,894</u>	<u>204,277</u>
Assets held for sale	421	-
	<u>213,315</u>	<u>204,277</u>
<b>Total assets</b>	<u>368,892</u>	<u>372,365</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	43,015	43,015
Other reserves	17,042	14,212
Retained earnings	169,972	167,101
	<u>230,029</u>	<u>224,328</u>
Non-controlling interests	25,764	22,542
<b>Total equity</b>	<u>255,793</u>	<u>246,870</u>
<b>Non-current liabilities</b>		
Obligations under finance leases	605	1,634
Long term loans	34,663	56,679
Deferred tax liabilities	2,714	3,296
	<u>37,982</u>	<u>61,609</u>
<b>Current liabilities</b>		
Trade and other payables	48,159	34,911
Obligations under finance leases	1,594	2,165
Term loans	25,364	26,364
Income tax payable	-	446
	<u>75,117</u>	<u>63,886</u>
<b>Total liabilities</b>	<u>113,099</u>	<u>125,495</u>
<b>Total equity and liabilities</b>	<u>368,892</u>	<u>372,365</u>
Net assets per share attributable to owners of the parent (sen)	<u>534.76</u>	<u>521.51</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 2011 and the accompanying explanatory notes attached to the interim financial statements.

**KESM INDUSTRIES BERHAD**  
(Incorporated in Malaysia)

Company No : 13022-A

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE QUARTER ENDED 31 JULY 2012**

FY2012	< ----- Attributable to owners of the parent ----- >							Non-controlling interests	
	Share capital	< ----- Non-distributable ----- >				Statutory reserve fund	Retained earnings		Total
		Share premium	Foreign currency translation reserve	Asset revaluation reserve					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 August 2011	43,015	663	(271)	12,915	905	167,101	224,328	22,542	
Total comprehensive income	-	-	2,830	-	-	4,161	6,991	3,222	
<b>Transaction with owners</b>									
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	
<b>At 31 July 2012</b>	<b>43,015</b>	<b>663</b>	<b>2,559</b>	<b>12,915</b>	<b>905</b>	<b>169,972</b>	<b>230,029</b>	<b>25,764</b>	

FY2011	< ----- Attributable to owners of the parent ----- >							Non-controlling interests	
	Share capital	< ----- Non-distributable ----- >				Statutory reserve fund	Retained earnings		Total
		Share premium	Foreign currency translation reserve	Asset revaluation reserve					
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 August 2010	43,015	663	905	12,915	-	156,914	214,412	18,245	
Total comprehensive income	-	-	(1,176)	-	-	12,382	11,206	4,297	
<b>Transaction with owners</b>									
Transfer to statutory reserve fund	-	-	-	-	905	(905)	-	-	
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	
<b>At 31 July 2011</b>	<b>43,015</b>	<b>663</b>	<b>(271)</b>	<b>12,915</b>	<b>905</b>	<b>167,101</b>	<b>224,328</b>	<b>22,542</b>	

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 2011 and the accompanying explanatory notes attached to the interim financial statements.

**KESM INDUSTRIES BERHAD**  
(Incorporated in Malaysia)

Company No : 13022-A

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE QUARTER ENDED 31 JULY 2012**

	<b>Current year to date 31/07/2012</b>	<b>Preceding year corresponding period 31/07/2011</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	11,981	22,716
Adjustments for:		
Depreciation of property, plant and equipment	56,313	51,972
Impairment of property, plant and equipment	-	250
(Gain)/loss on disposal of property, plant and equipment	(185)	2
Loss/(gain) on disposal of investment securities held for trading	15	(312)
Plant and equipment written off	186	45
Net fair value gain on investment securities held for trading	(479)	(1,220)
Unrealised exchange loss/(gain)	331	(626)
Inventories written down	1,822	298
Impairment of trade receivables	6,967	-
Dividend income	(417)	(509)
Interest income	(2,565)	(1,298)
Finance costs	3,318	3,256
<b>Operating cash flows before working capital changes</b>	<b>77,287</b>	<b>74,574</b>
Decrease/(increase) in inventories	603	(7,212)
Increase in prepayment, trade and other receivables	(5,505)	(5,496)
Increase/(decrease) in trade and other payables	838	(24,009)
<b>Cash generated from operations</b>	<b>73,223</b>	<b>37,857</b>
Income taxes paid	(5,568)	(6,058)
Interest paid	(3,318)	(3,256)
Interest received	2,565	1,298
<b>Net cash generated from operating activities</b>	<b>66,902</b>	<b>29,841</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investment securities	1,148	1,094
Dividend income	417	509
Purchase of property, plant and equipment	(24,246)	(57,825)
Proceeds from disposal of property, plant and equipment	634	833
<b>Net cash used in investing activities</b>	<b>(22,047)</b>	<b>(55,389)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of obligations under finance leases	(2,265)	(2,140)
Repayment of term loans	(29,616)	(21,635)
Proceeds from term loans	3,464	82,379
Dividend paid on ordinary shares	(1,290)	(1,290)
<b>Net cash flows (used in)/generated from financing activities</b>	<b>(29,707)</b>	<b>57,314</b>
<b>Net increase in cash and cash equivalents</b>	<b>15,148</b>	<b>31,766</b>
Effects of exchange rate changes	(1,918)	175
Cash and cash equivalents at beginning of year	100,526	68,585
<b>Cash and cash equivalents at end of the year</b>	<b>113,756</b>	<b>100,526</b>

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2011 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 Financial Reporting Standards ("FRS") 134: "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board and paragraph 9.22 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 year ended 31 July 2011. 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 year ended 31 July 2011.

### 2. Significant accounting policies

The significant accounting policies and methods of computation adopted by the Group in the interim financial statements are consistent with those of the audited financial statements for the year ended 31 July 2011, except for the adoption of new/revised Financial Reporting Standards (FRSs), Amendments to FRSs and IC Interpretations effective for financial year beginning 1 August 2011.

The application of the new/revised FRSs, Amendments to FRSs and IC Interpretations did not result in any material financial impact to the Group, except for changes in disclosures.

#### Amendments to FRS 7: Improving Disclosure about Financial Instruments

The *Improving Disclosures about Financial Instruments* reinforces existing principles for disclosures about liquidity risk. Also, the amendments require enhanced disclosures about fair value measurements in which a three-level fair value hierarchy is introduced.

The Group is required to classify fair value measurements using this hierarchy which is based on the inputs used in determining the measurement.

#### Malaysian Financial Reporting Standards (MFRS Framework)

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the financial year ending 31 July 2013. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained profits.

The Group has established a project team to plan and manage the adoption of the MFRS Framework.

### **3. Significant accounting policies (cont'd)**

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in this announcement for the year ended 31 July 2012 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 July 2013.

### **4. Audit report of preceding annual financial statements**

The audit report of the Group's most recent audited financial statements for the year ended 31 July 2011 was not qualified.

### **5. Seasonality or cyclicity of operations**

There was no material seasonal or cyclical fluctuation in the operations of the Group.

### **6. 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 during the reporting period.

### **7. 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 financial years.

### **8. 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 year-to-date.

### **9. Dividends paid**

A first and final tax exempt dividend of 3 sen per ordinary share, amounting to RM1,290,000, in respect of the previous financial year ended 31 July 2011, was paid on 20 January 2012.

## 10. Segmental reporting

Segmental revenue and results for the current financial year-to-date were as follows:-

	Burn-in, testing and electronic manufacturing services (Operating segment)		Investment holding segment		Total	
	31/07/2012 RM'000	31/07/2011 RM'000	31/07/2012 RM'000	31/07/2011 RM'000	31/07/2012 RM'000	31/07/2011 RM'000
<b>Revenue income</b>						
Sales to external customers	236,940	248,113	-	-	236,940	248,113
Dividend income	-	-	417	509	417	509
	236,940	248,113	417	509	237,357	248,622
<b>Results</b>						
Segment profit	11,853	22,633	881	2,041	12,734	24,674
Interest income					2,565	1,298
Finance costs					(3,318)	(3,256)
Profit before tax					11,981	22,716
Income tax expense					(4,598)	(6,037)
Profit net of tax					7,383	16,679

## 11. Events not reflected in the financial statements

There were no material subsequent events to be disclosed as at the date of this report.

## 12. Changes in the composition of the Group

There were no changes in the composition of the Group for the financial year-to-date.

## 13. Acquisition or disposal of items of property, plant and equipment

During the financial year, the Group acquired plant and equipment amounted to RM40,126,000 and disposed plant and equipment of net book value amounted to RM449,000.

#### 14. Significant related party transactions

	<u>As at</u> <u>31/07/2012</u> RM'000	<u>As at</u> <u>31/07/2011</u> RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries:		
Management fees charged by Sunright Limited	4,656	4,799
Interest on loan from Sunright Limited	117	117
Sales to:		
- KES Systems & Service (1993) Pte Ltd	471	79
- KES Systems, Inc.	48	-
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	1,969	5,430
- Kestronics (M) Sdn Bhd	2,327	1,667
- KES Systems, Inc.	-	4,095
- KEST Systems & Service Ltd	17	5

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.

#### 15. Significant commitments for purchase of property, plant and equipment

Commitments for purchase of property, plant and equipment amounted to RM8,269,000 as at 31 July 2012.



**16. Profit before tax**

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year Corresponding period
	31/07/2012 RM'000	31/07/2011 RM'000	31/07/2012 RM'000	31/07/2011 RM'000
Profit before tax is at:				
After charging:				
Inventories written down	1,222	298	1,822	298
Loss on disposal of property, plant and equipment	16	-	-	2
Loss on disposal on investment securities held for trading	-	-	15	-
Plant and equipment written off	170	44	186	45
Impairment of property, plant and equipment	-	250	-	250
Net foreign exchange loss	382	513	-	806
Fair value loss on investment securities held for trading	-	100	-	-
Impairment of trade receivables	6,967	-	6,967	-
And crediting:				
Gain on disposal of property, plant and equipment	-	42	185	-
Gain on disposal on investment securities held for trading	-	-	-	312
Fair value gain on investment securities held for trading	233	-	479	1,220
Net foreign exchange gain	-	-	2,482	-

There were no gain or loss arising from derivatives and exceptional items.

## 17. Detailed analysis of Group performance

### Analysis of the performance for the current quarter

The Group's operating segment comprising revenue from burn-in, testing and electronic manufacturing services increased by RM8.4 million or 14%, from RM61.3 million in the preceding year's corresponding quarter to RM69.7 million for the current financial quarter ended 31 July 2012 because of higher demand from burn-in, testing and electronic manufacturing services.

Other income was lower by RM0.6 million or 32%, from RM1.9 million to RM1.3 million. This was primarily due to an increase of RM1.1 million from the reversal of sundry payables, offset by absence of RM1.6 million income arising from the rental of equipment.

Raw materials and consumables used and changes in work-in-progress and finished goods were higher by RM2.1 million or 12%, from RM16.7 million to RM18.7 million in the current reporting quarter, to support higher activities for electronic manufacturing services. Included in raw materials and consumables used and changes in work-in-progress and finished goods was an inventory write-down of RM1.2 million.

Employee benefits expense increased from RM16.9 million to RM19.5 million as a result of higher headcounts to support expanded production capacities and increase in wage rates in China.

Other expenses increased by RM7.1 million or 63%, from RM11.3 million to RM18.4 million, mainly due to an impairment loss of RM7.0 million provided for the Group's trade receivables.

In effect, the Group's profit before tax decreased by RM3.3 million or 87%, from RM3.8 million in the preceding year's corresponding quarter to RM0.5 million in the reporting quarter under review.

### Analysis of the performance for the current financial year to date

The Group's operating segment reported lower revenue by RM11.2 million or 5%, from RM248.1 million in the preceding year's corresponding year to RM236.9 million for the current financial year ended 31 July 2012. This was mainly due to varied changes in customers' product portfolio.

Interest income rose from RM1.3 million to RM2.6 million following an increase in deposits.

Other income increased by RM5.9 million, from RM3.8 million to RM9.7 million in the current financial year. This was primarily due to (i) the operating segment reporting an increase in reversal of sundry payables of RM3.2 million, (ii) a RM2.7 million incentive grant given by the China government for technology upgrade, (iii) a net exchange gain of RM2.5 million (as opposed to a net exchange loss of RM0.8 million in the corresponding financial year recognized in "Other expenses") arising from appreciation of US Dollars against Ringgit on US Dollars denominated receivables, partially offset by (iv) absence of equipment rental income of RM1.6 million and (v) lower fair value gain on investment securities of RM0.7 million recorded by the investment holding segment.

Raw materials and consumables used and Changes in work-in-progress and finished goods decreased by RM7.6 million or 12%, from RM62.6 million to RM55.0 million in the current financial year, because of lower sales from electronic manufacturing services.

Employee benefits expense increased by RM5.0 million or 8%, from RM61.7 million to RM66.6 million as a result of increase in headcounts to support expanded production capacities and increase in wage rates in China.

Similarly, depreciation of property, plant and equipment was higher by RM4.3 million or 8%, as a result of expanded production capacities.

## **17. Detailed analysis of Group performance (cont'd)**

### Analysis of the performance for the current financial year to date (cont'd)

Other expenses were higher by RM5.1 million or 10% from the preceding financial year. This was mainly due to an impairment loss of RM7.0 million provided for the Group's trade receivables, partially offset by lower repair and maintenance of RM1.1 million as a result of lower machine usage.

In effect, the Group's profit before tax reduced by RM10.7 million or 47%, from RM22.7 million in the preceding financial year to RM12.0 million in the current financial year.

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

The Group reported improved revenue from its burn-in, testing and electronic manufacturing services. However, the Group's profit before tax for the current quarter ended 31 July 2012 was RM0.5 million compared to RM3.7 million in the preceding quarter ended 30 April 2012 due to:

- i) Impairment loss on trade receivables and inventories written down,
- ii) higher material costs as a result of higher sales from electronic manufacturing services, and
- iii) increase in employee benefits expenses following wage adjustments.

## **19. Prospects**

As reported in May 2012, the global semiconductor industry has projected to grow at 3%, from USD307 billion in 2011 to USD316 billion in 2012. This modest projection was made with the industry poised for a rebound in the second quarter of calendar year 2012, provided that the macro economic outlook remains stable.

The Euro-zone debt crisis continues to be a major global concern and the world-wide manufacturing indices of several key economies remain weak.

Despite the weaker macro economic outlook, the Group is encouraged by customers who are relentlessly innovating and introducing new products to the market which may require our further investments in productivity and capacity upgrades.

## **20. Profit forecast / profit guarantee**

The Group was not subjected to any profit guarantee.

## 21. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding quarter
	31/07/2012	31/07/2011	31/07/2012	31/07/2011
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(998)	(2,396)	1,374	1,619
- Foreign tax	831	674	3,979	3,805
- Under/(over) provision in prior years	(126)	(126)	(159)	(175)
	(293)	(1,848)	5,194	5,249
Deferred tax				
- Origination and reversal of temporary differences	1,943	2,279	(610)	621
- Under/(over) provision in prior years	14	167	14	167
	1,957	2,446	(596)	788
	1,664	598	4,598	6,037

The effective tax rate was higher than the statutory tax rate, mainly due to certain non-deductible expenses.

## 22. Status of uncompleted corporate proposals

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

## 23. Group borrowings and debt securities

	As At 31/07/2012 RM'000	As At 31/07/2011 RM'000
(a) Obligations under finance leases – secured	2,199	3,799
Term loans – secured	57,763	81,669
Term loans – unsecured	890	-
Other loan – unsecured	1,374	1,374
	<u>62,226</u>	<u>86,842</u>
(b) Repayable within 12 months	26,958	28,529
Repayable after 12 months	35,268	58,313
	<u>62,226</u>	<u>86,842</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	42,535	51,563
Ringgit Malaysia (“RM”)	19,691	35,279
	<u>62,226</u>	<u>86,842</u>

#### 24. Changes in material litigation

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

#### 25. Dividend

The Board recommends for shareholders' approval at the forthcoming Annual General Meeting a first and final tax exempt dividend of 3.0 sen per share in respect of the financial year ended 31 July 2012.

#### 26. Earnings per share

##### Basic earnings per ordinary share

The calculation of basic earnings per share for the period was based on the profit attributable to owners of the parent of RM4,161,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

#### 27. Realised and unrealised profits

	As at end of current quarter 31/07/2012	As at preceding financial year end 31/07/2011
	RM'000	RM'000
- Realised	190,061	183,061
- Unrealised	6,555	7,554
Total retained profits of the Company and its subsidiaries	196,616	190,615
Consolidation adjustments	(26,644)	(23,514)
Total group retained profits as per consolidated accounts	169,972	167,101

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 20 September 2012