

**KESM INDUSTRIES BERHAD**

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS  
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2013**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 January 2013.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE QUARTER ENDED 31 JANUARY 2013**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/01/2013) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2012) * RM'000	CURRENT YEAR TO DATE (31/01/2013) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (31/01/2012) * RM'000
<b>Revenue</b>	58,694	58,277	122,930	108,634
<b>Other items of income</b>				
Interest income	528	741	1,265	1,340
Dividend income	161	175	203	208
Other income	1,652	2,392	2,788	6,953
<b>Items of expense</b>				
Raw materials and consumables used	(13,507)	(13,951)	(27,929)	(24,679)
Changes in work-in-progress and finished goods	705	(38)	348	(155)
Employee benefits expense	(17,397)	(15,529)	(35,582)	(29,779)
Depreciation of property, plant and equipment	(14,240)	(14,255)	(28,522)	(28,512)
Finance costs	(543)	(878)	(1,196)	(1,812)
Other expenses	(13,959)	(12,549)	(28,310)	(24,418)
Profit before tax	2,094	4,385	5,995	7,780
Income tax expense	(2,189)	(816)	(3,985)	(1,995)
(Loss)/profit net of tax	(95)	3,569	2,010	5,785
Other comprehensive income:				
Foreign currency translation	712	890	712	2,723
Other comprehensive income for the period, net of tax	712	890	712	2,723
Total comprehensive income for the period	617	4,459	2,722	8,508
(Loss)/profit attributable to:				
Owners of the parent	(889)	3,057	394	4,882
Non-controlling interests	794	512	1,616	903
	(95)	3,569	2,010	5,785
Total comprehensive income attributable to:				
Owners of the parent	(177)	3,947	1,106	7,605
Non-controlling interests	794	512	1,616	903
	617	4,459	2,722	8,508
(Loss)/earnings per share attributable to owners of the parent (sen per share):				
- Basic	(2.1)	7.1	0.9	11.3

\* Certain comparative amounts have been reclassified to conform with current year's presentation to reflect a fairer presentation.

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2012 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 2013**

	AS AT END OF CURRENT QUARTER 31/01/2013 RM'000	AS AT PRECEDING FINANCIAL YEAR END 31/07/2012 RM'000	AS AT 01/08/2011 RM'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	149,878	150,273	162,768
Deferred tax assets	5,309	5,304	5,320
	<u>155,187</u>	<u>155,577</u>	<u>168,088</u>
<b>Current assets</b>			
Inventories	19,072	20,574	22,999
Trade and other receivables	57,920	65,097	67,128
Prepayments	1,679	1,772	1,203
Tax recoverable	360	1,064	1,106
Investment securities	10,178	10,631	11,315
Cash and bank balances	96,090	113,756	100,526
	<u>185,299</u>	<u>212,894</u>	<u>204,277</u>
Assets held for sale	-	421	-
	<u>185,299</u>	<u>213,315</u>	<u>204,277</u>
<b>Total assets</b>	<u>340,486</u>	<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	43,015
Other reserves	6,368	4,127	1,297
Retained earnings	180,462	182,887	180,016
	<u>229,845</u>	<u>230,029</u>	<u>224,328</u>
Non-controlling interests	27,380	25,764	22,542
<b>Total equity</b>	<u>257,225</u>	<u>255,793</u>	<u>246,870</u>
<b>Non-current liabilities</b>			
Obligations under finance leases	1,130	605	1,634
Long term loans	23,281	34,663	56,679
Deferred tax liabilities	2,714	2,714	3,296
	<u>27,125</u>	<u>37,982</u>	<u>61,609</u>
<b>Current liabilities</b>			
Trade and other payables	30,346	48,159	34,911
Obligations under finance leases	1,175	1,594	2,165
Term loans	23,227	25,364	26,364
Income tax payable	1,388	-	446
	<u>56,136</u>	<u>75,117</u>	<u>63,886</u>
<b>Total liabilities</b>	<u>83,261</u>	<u>113,099</u>	<u>125,495</u>
<b>Total equity and liabilities</b>	<u>340,486</u>	<u>368,892</u>	<u>372,365</u>
Net assets per share attributable to owners of the parent (RM)	<u>5.34</u>	<u>5.35</u>	<u>5.22</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 2012 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 JANUARY 2013**

FY2013	< ----- Attributable to owners of the parent ----- >						Non-controlling interests	Total equity
	Share capital	< ----- Non-distributable ----- >			Distributable			
		Share premium	Foreign currency translation reserve	Statutory reserve fund	Retained earnings	Total		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 August 2012	43,015	663	2,559	905	182,887	230,029	25,764	255,793
Total comprehensive income	-	-	712	-	394	1,106	1,616	2,722
<b>Transaction with owners</b>								
Transfer to statutory reserve fund	-	-	-	1,529	(1,529)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
<b>At 31 January 2013</b>	<b>43,015</b>	<b>663</b>	<b>3,271</b>	<b>2,434</b>	<b>180,462</b>	<b>229,845</b>	<b>27,380</b>	<b>257,225</b>

FY2012	< ----- Attributable to owners of the parent ----- >						Non-controlling interests	Total equity	
	Share capital	< ----- Non-distributable ----- >			Distributable				
		Share premium	Foreign currency translation reserve	Asset revaluation reserve	Statutory reserve fund	Retained earnings			Total
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	246,870
Effects of transition to MFRS	-	-	-	(12,915)	-	12,915	-	-	-
<b>At 1 August 2011, as restated</b>	<b>43,015</b>	<b>663</b>	<b>(271)</b>	<b>-</b>	<b>905</b>	<b>180,016</b>	<b>224,328</b>	<b>22,542</b>	<b>246,870</b>
Total comprehensive income	-	-	2,723	-	-	4,882	7,605	903	8,508
<b>Transaction with owners</b>									
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	(1,290)
<b>At 31 January 2012</b>	<b>43,015</b>	<b>663</b>	<b>2,452</b>	<b>-</b>	<b>905</b>	<b>183,608</b>	<b>230,643</b>	<b>23,445</b>	<b>254,088</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 2012 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 2013**

	<b>Current year to date 31/01/2013</b>	<b>Preceding year corresponding year to date 31/01/2012</b>
	<b>RM'000</b>	<b>RM'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	5,995	7,780
Adjustments for:		
Depreciation of property, plant and equipment	28,522	28,512
Gain on disposal of property, plant and equipment	(395)	(10)
Loss on disposal of investment securities held for trading	-	15
Net fair value loss/(gain) on investment securities held for trading	453	(94)
Unrealised exchange gain	(1,090)	(764)
Inventories written down	160	300
Dividend income	(203)	(208)
Interest income	(1,265)	(1,340)
Finance costs	1,196	1,812
<b>Operating cash flows before working capital changes</b>	<b>33,373</b>	<b>36,003</b>
Decrease in inventories	1,342	2,278
Decrease in prepayment, trade and other receivables	7,270	6,511
Decrease in trade and other payables	(19,063)	(2,051)
<b>Cash generated from operations</b>	<b>22,922</b>	<b>42,741</b>
Income taxes paid	(1,917)	(3,454)
Interest paid	(1,196)	(1,812)
Interest received	1,265	1,340
<b>Net cash generated from operating activities</b>	<b>21,074</b>	<b>38,815</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investment securities	-	1,149
Dividend income	203	208
Purchase of property, plant and equipment	(23,140)	(12,402)
Proceeds from disposal of property, plant and equipment	772	378
<b>Net cash used in investing activities</b>	<b>(22,165)</b>	<b>(10,667)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of obligations under finance leases	(2,112)	(1,116)
Repayment of term loans	(13,741)	(15,014)
Proceeds from term loans	736	1,492
Dividend paid on ordinary shares	(1,290)	(1,290)
<b>Net cash flows used in financing activities</b>	<b>(16,407)</b>	<b>(15,928)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(17,498)</b>	<b>12,220</b>
Effects of exchange rate changes	(168)	(1,828)
Cash and cash equivalents at beginning of year	113,756	100,526
<b>Cash and cash equivalents at end of the period</b>	<b>96,090</b>	<b>110,918</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 2012 and the accompanying explanatory notes attached to the interim financial statements.

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## 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 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 year ended 31 July 2012. 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 2012.

### 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 2012, except for the adoption of Malaysian Financial Reporting Standards (MFRSs), Amendments to MFRSs and IC Interpretations effective for financial year beginning 1 August 2012.

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

#### *First time adoption of MFRS*

These condensed consolidation interim financial reports are the Group's first MFRS condensed consolidated interim financial reports for part of the period covered by the Group's first MFRS annual financial statements for the year ending 31 July 2013. *MFRS 1: First time adoption of Malaysian Financial Reporting Standards ("MFRS 1")* has been applied.

In preparing its opening MFRS Statement of Financial Position as at 1 August 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Company's financial position is as set out below. These notes include reconciliations of equity for the comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the consolidated statement of comprehensive income and consolidated statement of cash flows.

#### *Measurement of leasehold land and buildings at deemed cost*

The Group's and the Company's leasehold land and buildings were revalued based on a valuation conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers in April 2009. The valuers used the comparison method of valuation to determine the market value of the leasehold land and buildings. The surplus arising from this revaluation had been credited to revaluation reserve.

Upon transition to MFRS, the Group elected to measure its leasehold land and buildings using the cost model under *MFRS 116 Property, Plant and Equipment*. At the date of transition to MFRS, the Group elected to regard the revalued amount as deemed cost as these amounts were broadly comparable to fair value at that date. Consequently, the asset revaluation reserve of RM12,915,000 was transferred to retained earnings on the date of transition to MFRS.

## 2. Significant accounting policies (cont'd)

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods at the date of transition under MFRS are provided below:

### i. Reconciliation of equity as at 1 August 2011 (date of transition)

	FRS as at 1 August 2011 RM'000	Effects of adopting MFRS RM'000	MFRS as at 1 August 2011 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	167,101	12,915	180,016

### ii. Reconciliation of equity as at 31 January 2012

	FRS as at 31 January 2012 RM'000	Effects of adopting MFRS RM'000	MFRS as at 31 January 2012 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	170,693	12,915	183,608

### iii. Reconciliation of equity as at 31 July 2012

	FRS as at 31 July 2012 RM'000	Effects of adopting MFRS RM'000	MFRS as at 31 July 2012 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	169,972	12,915	182,887

### Segmental reporting

The Group has changed its basis of segmentation from two segments to one segment. From 1 August 2012 onwards, the only operating segment of the Group is burn-in, testing and electronic manufacturing services which is evaluated regularly by management in deciding how to allocate resources and in assessing performance of the Group.

In the annual report for the financial year ended 31 July 2012, investment holding segment is disclosed in the segment information which comprises Group-level corporate services, treasury functions and investment in marketable securities, and consolidation adjustments which are not directly attributable to the burn-in, testing and electronic manufacturing services segment. The investment holding segment is not significant to be separately reported and evaluated by management.

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**3. 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 2012 was not qualified.

**4. Seasonality or cyclical nature 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 during the 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 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 year-to-date.

**8. 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 2012, was paid on 6 February 2013.

**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 financial year to date.

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

During the reporting period, the Group acquired plant and equipment amounted to RM27,184,000 and disposed plant and equipment of net book value amounted to RM3,000.

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## 12. Significant related party transactions

	<u>As at</u> 31/01/2013 <u>RM'000</u>	<u>As at</u> 31/01/2012 <u>RM'000</u>
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries:		
Management fees charged by Sunright Limited	2,850	2,480
Interest on loan from Sunright Limited	58	58
Sales to:		
- KES Systems & Service (1993) Pte Ltd	55	372
- KES Systems, Inc.	21	-
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	254	658
- Kestronics (M) Sdn Bhd	1	2,292
- KES Systems, Inc.	168	-

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

There were no significant commitments for the purchase of property, plant and equipment as at 31 January 2013.



**14. Profit before tax**

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/01/2013	31/01/2012	31/01/2013	31/01/2012
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Fair value loss on investment securities held for trading	401	-	453	-
Inventories written down	-	300	160	300
Loss on disposal on investment securities held for trading	-	-	-	15
And crediting:				
Gain on disposal of property, plant and equipment	375	6	395	10
Fair value gain on investment securities held for trading	-	712	-	94
Net foreign exchange gain	800	955	1,339	2,499

There were no gain or loss arising from derivatives, disposal of unquoted investments, impairment on receivables and exceptional items.

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## 15. Detailed analysis of Group performance

### Analysis of the performance for the current quarter

The Group's revenue improved marginally by RM0.4 million or 1%, from RM58.3 million in the preceding year's second quarter to RM58.7 million for the current quarter ended 31 January 2013 ("2QFY2013").

Interest income was lower by RM0.2 million or 29% as funds were employed for purchases of machinery and test equipment.

Other income was lower by RM0.7 million, primarily due to absence of a fair value gain on investment securities of RM0.7 million, as a fair value loss on investment securities of RM0.4 million was recorded in "Other expenses".

Raw materials and consumables used and changes in work-in-progress were lower by RM1.2 million or 8%, from RM14.0 million to RM12.8 million, because of lower sales from electronic manufacturing services, and absence of inventory written down.

Employee benefits expense was higher by RM1.9 million or 12%, mainly due to more hires of contract workers, along with adjustments to wage rates in response to further increases to the minimum wage rates in China and Malaysia.

Finance costs reduced by RM0.3 million or 38% following repayments of loans and borrowings.

Other expenses increased by RM1.4 million or 11%, from RM12.5 million to RM14.0 million, mainly due to a fair value loss on investment securities of RM0.4 million (as compared to a fair value gain on investment securities of RM0.7 million recorded in "Other income" in the preceding year's second quarter), higher repair and maintenance expenses by RM0.6 million as a result of higher machine usage and increased utility usage by RM0.2 million.

In effect, the Group's profit before tax decreased by RM2.3 million or 52%, from RM4.4 million to RM2.1 million in 2QFY2013.

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

The Group's revenue increased by RM14.3 million or 13%, from RM108.6 million in the preceding year's corresponding period to RM122.9 million for the current financial period ended 31 January 2013, as a result of higher demand from burn-in, testing and electronic manufacturing services.

Other income was lower by RM4.2 million, primarily due to absence of a RM2.7 million incentive grant given by the China government for technology upgrade and lower exchange gain by RM1.2 million, arising from depreciation of US Dollars against Ringgit on US Dollars denominated receivables.

Raw materials and consumables used and changes in work-in-progress increased by RM2.7 million or 11%, from RM24.8 million to RM27.6 million, because of higher electronic manufacturing services sales.

Employee benefits expense was higher by RM5.8 million or 19% mainly because of more hires of contract workers along with adjustments to wage rates in response to further increases to the minimum wage rates in China and Malaysia.

Finance costs were lower by RM0.6 million or 34% following repayments of loans and borrowings.

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

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

Other expenses increased by RM3.9 million or 16%, mainly due to (i) a fair value loss on investment securities of RM0.5 million (as compared to a fair value gain on investment securities of RM0.1 million recorded in "Other income" in the preceding year's corresponding period), (ii) higher repair and maintenance expenses by RM1.8 million as a result of higher machine usage, (iii) increased utility usage by RM0.6 million and (iv) increased levy fees by RM0.4 million.

In effect, the Group's profit before tax decreased by RM1.8 million or 23%, from RM7.8 million to RM6.0 million in the reporting period under review.

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

The Group achieved profit before tax of RM2.1 million for the second quarter ended 31 January 2013, compared to RM3.9 million in the preceding quarter ended 31 October 2012.

The decrease in profit before tax was mainly due to lower sales.

## **17. Prospects**

The global semiconductor industry is expected to contract by 3% to US\$298 billion in 2012, from an earlier projected contraction of 0.1% in the previous announcement. The revised estimate was made following the ongoing European debt crisis, slower emerging market growth and regional tensions.

Worldwide semiconductor revenue is projected improve to US\$311 billion in 2013, representing a modest growth of 4.5% from 2012.

The economic recovery remains uncertain with major economies remain weak, excessive liquidity and countries in Asia introducing minimum wage controls. These developments will continue to exert pressure on profitability. The Group's efforts to improve productivity and increase value-add to our customers are expected to cushion these challenges.

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

The Group was not subjected to any profit guarantee.

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## 19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding quarter
	31/01/2013	31/01/2012	31/01/2013	31/01/2012
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	949	752	2,005	1,311
- Foreign tax	1,240	931	2,011	2,386
- Over provision in prior years	-	-	(31)	-
	<u>2,189</u>	<u>1,683</u>	<u>3,985</u>	<u>3,697</u>
Deferred tax				
- Relating to origination and reversal of temporary differences	-	(867)	-	(1,702)
	<u>2,189</u>	<u>816</u>	<u>3,985</u>	<u>1,995</u>

The effective tax rate was higher than the statutory tax rate, mainly due to higher foreign tax resulting from one-off non-deductible expenses.

## 20. Status of uncompleted corporate proposals

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

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## 21. Group borrowings and debt securities

	<u>As At</u> <u>31/01/2013</u> RM'000	<u>As At</u> <u>31/07/2012</u> RM'000
(a) Obligations under finance leases - secured	2,305	2,199
Term loans – secured	45,134	57,763
Term loans – unsecured	-	890
Other loan – unsecured	1,374	1,374
	<u>48,813</u>	<u>62,226</u>
(b) Repayable within 12 months	24,402	26,958
Repayable after 12 months	24,411	35,268
	<u>48,813</u>	<u>62,226</u>
(c) Loans denominated in:		
United States Dollar ("USD")	34,617	42,535
Ringgit Malaysia ("RM")	14,196	19,691
	<u>48,813</u>	<u>62,226</u>

## 22. Changes in material litigation

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

## 23. Dividend

No interim dividend has been declared for the financial quarter ended 31 January 2013.

## 24. 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 RM394,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

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**25. Realised and unrealised profits**

	As at end of current quarter 31/01/2013	As at preceding financial year end 31/07/2012
	RM'000	RM'000
- Realised	202,470	204,191
- Unrealised	7,523	6,555
Total retained profits of the Company and its subsidiaries	209,993	210,746
Consolidation adjustments	(29,531)	(27,859)
Total group retained profits as per consolidated accounts	180,462	182,887

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 11 March 2013