

**KESM INDUSTRIES BERHAD**

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED THIRD QUARTERLY REPORT ON CONSOLIDATED RESULTS  
FOR THE FINANCIAL QUARTER ENDED 30 APRIL 2014**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 30 April 2014.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE QUARTER ENDED 30 APRIL 2014**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (30/04/2014) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2013) RM'000	CURRENT YEAR TO DATE (30/04/2014) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (30/04/2013) RM'000
<b>Revenue</b>	59,107	60,272	185,717	183,202
<b>Other items of income</b>				
Interest income	682	604	2,345	1,869
Dividend income	51	57	158	260
Other income	1,075	1,262	2,255	3,692
<b>Items of expense</b>				
Raw materials and consumables used	(6,713)	(10,864)	(29,917)	(38,793)
Changes in work-in-progress and finished goods	(661)	(1,051)	(150)	(703)
Employee benefits expense	(20,897)	(19,254)	(62,661)	(54,836)
Depreciation of property, plant and equipment	(13,243)	(13,388)	(38,883)	(41,910)
Finance costs	(496)	(441)	(1,786)	(1,637)
Other expenses	(15,132)	(14,124)	(46,626)	(42,076)
Profit before tax	3,773	3,073	10,452	9,068
Income tax expense	(1,286)	(1,836)	(3,064)	(5,821)
Profit net of tax	2,487	1,237	7,388	3,247
Other comprehensive income:				
Foreign currency translation	(1,130)	(11)	445	701
Other comprehensive income for the period, net of tax	(1,130)	(11)	445	701
Total comprehensive income for the period	1,357	1,226	7,833	3,948
Profit attributable to:				
Owners of the parent	1,360	47	4,204	441
Non-controlling interests	1,127	1,190	3,184	2,806
	2,487	1,237	7,388	3,247
Total comprehensive income attributable to:				
Owners of the parent	230	36	4,649	1,142
Non-controlling interests	1,127	1,190	3,184	2,806
	1,357	1,226	7,833	3,948
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	3.2	0.1	9.8	1.0

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2013 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 30 APRIL 2014**

	<u>AS AT END OF CURRENT QUARTER 30/04/2014</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2013</u>
	RM'000	RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	160,138	135,662
Deferred tax assets	5,114	5,114
	<u>165,252</u>	<u>140,776</u>
<b>Current assets</b>		
Inventories	13,698	16,035
Trade and other receivables	58,305	59,542
Prepayments	1,739	1,454
Tax recoverable	127	618
Investment securities	7,283	8,029
Cash and bank balances	117,145	139,227
	<u>198,297</u>	<u>224,905</u>
<b>Total assets</b>	<u>363,549</u>	<u>365,681</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	43,015	43,015
Other reserves	9,108	7,776
Retained earnings	186,664	184,637
	<u>238,787</u>	<u>235,428</u>
Non-controlling interests	33,820	30,636
<b>Total equity</b>	<u>272,607</u>	<u>266,064</u>
<b>Non-current liabilities</b>		
Obligations under finance leases	965	2,351
Long term loans	18,640	35,209
Deferred tax liabilities	2,762	2,762
	<u>22,367</u>	<u>40,322</u>
<b>Current liabilities</b>		
Trade and other payables	42,343	28,888
Obligations under finance leases	1,857	1,942
Term loans	23,512	28,012
Income tax payable	863	453
	<u>68,575</u>	<u>59,295</u>
<b>Total liabilities</b>	<u>90,942</u>	<u>99,617</u>
<b>Total equity and liabilities</b>	<u>363,549</u>	<u>365,681</u>
Net assets per share attributable to owners of the parent (RM)	<u>5.55</u>	<u>5.47</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 2013 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 30 APRIL 2014**

FY2014	< ----- 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 2013	43,015	663	4,679	2,434	184,637	235,428	30,636	266,064
Total comprehensive income	-	-	445	-	4,204	4,649	3,184	7,833
<b>Transaction with owners</b>								
Transfer to statutory reserve fund	-	-	-	887	(887)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 30 April 2014	43,015	663	5,124	3,321	186,664	238,787	33,820	272,607

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	-	-	701	-	441	1,142	2,806	3,948
<b>Transaction with owners</b>								
Transfer to statutory reserve	-	-	-	1,529	(1,529)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 30 April 2013	43,015	663	3,260	2,434	180,509	229,881	28,570	258,451

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 2013 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 30 APRIL 2014**

	Current year to date 30/04/2014 RM'000	Preceding year corresponding year to date 30/04/2013 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	10,452	9,068
Adjustments for:		
Depreciation of property, plant and equipment	38,883	41,910
Property, plant and equipment written off	89	-
Loss/(gain) on disposal of property, plant and equipment	6	(423)
Gain on disposal of investment securities held for trading	(327)	(737)
Net fair value loss on investment securities held for trading	212	1,693
Unrealised exchange loss/(gain)	1,271	(504)
Inventories written down	-	160
Reversal of impairment loss on trade receivables	(48)	-
Dividend income	(158)	(260)
Interest income	(2,345)	(1,869)
Finance costs	1,786	1,637
<b>Operating cash flows before working capital changes</b>	49,821	50,675
Decrease in inventories	2,337	3,515
Decrease in prepayment, trade and other receivables	1,000	8,311
Decrease in trade and other payables	(2,203)	(21,286)
<b>Cash generated from operations</b>	50,955	41,215
Income taxes paid	(2,142)	(2,338)
Interest paid	(1,786)	(1,637)
Interest received	2,345	1,869
<b>Net cash generated from operating activities</b>	49,372	39,109
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investment securities	861	978
Dividend income	158	260
Purchase of property, plant and equipment	(47,599)	(28,880)
Proceeds from disposal of property, plant and equipment	-	800
<b>Net cash used in investing activities</b>	(46,580)	(26,842)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of obligations under finance leases	(1,471)	(2,502)
Repayment of term loans	(22,453)	(19,844)
Proceeds from term loans	613	736
Dividend paid on ordinary shares	(1,290)	(1,290)
<b>Net cash flows used in financing activities</b>	(24,601)	(22,900)
<b>Net decrease in cash and cash equivalents</b>	(21,809)	(10,633)
Effects of exchange rate changes	(273)	(194)
Cash and cash equivalents at beginning of year	139,227	113,756
<b>Cash and cash equivalents at end of the period</b>	117,145	102,929

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2013 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 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 2013. 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 2013.

### 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 2013.

In the current financial period, the Group had adopted all the new/revised standards and interpretations that are effective for annual periods beginning on or after 1 August 2013. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

With effect from 1 August 2013, *Amendments to MFRS 101: Presentation of Financial Statements (Annual Improvements 2009-2011 Cycle)* requires an entity to change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations) would be presented separately from items which will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position and performance.

### 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 2013 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 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 2013, was paid on 29 January 2014.

## 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 RM62,757,000.

## 12. Significant related party transactions

	<u>As at</u> <u>30/04/2014</u> RM'000	<u>As at</u> <u>30/04/2013</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	4,205	4,093
Interest on loan from Sunright Limited	88	88
Sales to:		
- KES Systems & Service (1993) Pte Ltd	326	114
- KES Systems, Inc.	136	21
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	1,306	606
- Kestronics (M) Sdn Bhd	32	1
- KES Systems, Inc.	-	169
- KEST Systems & Service Ltd	540	-

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 purchase of property, plant and equipment amounted to RM1,344,000 as at 30 April 2014.

### 14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter 30/04/2014 RM'000	Preceding year corresponding quarter 30/04/2013 RM'000	Current year to date 30/04/2014 RM'000	Preceding year corresponding period 30/04/2013 RM'000
Profit before tax is arrived at:				
After charging:				
Fair value loss on investment securities held for trading	-	1,240	212	1,693
Plant and equipment written off	-	-	89	-
Inventories written down	-	-	-	160
Loss on disposal of property, plant and equipment	6	-	6	-
Net foreign exchange loss	676	358	493	-
And crediting:				
Gain on disposal of property, plant and equipment	-	28	-	423
Fair value gain on investment securities held for trading	431	-	-	-
Gain on disposal on investment securities held for trading	-	737	327	737
Reversal of impairment loss on trade receivables	21	-	48	-
Net foreign exchange gain	-	-	-	981

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

## 15. Detailed analysis of Group performance

### Analysis of the performance for the current quarter

The Group's revenue decreased by RM1.2 million or 2%, from RM60.3 million in the preceding year's third quarter to RM59.1 million for the current quarter ended 30 April 2014 ("3QFY2014").

Other income was lower by RM0.2 million or 15%, primarily due to (i) absence of a gain on disposal of investment securities of RM0.7 million, offset by (ii) a fair value gain on investment securities of RM0.4 million (as compared to fair value loss on investment securities of RM1.2 million recorded in "Other expenses" in the preceding year's corresponding quarter), and (iii) higher write back of sundry payables by RM0.1 million.

Raw materials and consumables used and changes in work-in-progress and finished goods were lower by RM4.5 million or 38%, from RM11.9 million to RM7.4 million, because of lower sales from electronic manufacturing services.

Employee benefits expense was higher by RM1.6 million or 9%, mainly due to lower variable staff compensation payout in the preceding year's corresponding quarter.

Other expenses increased by RM1.0 million or 7%, from RM14.1 million to RM15.1 million, primarily due to (i) higher utility by RM1.3 million as a result of increased electricity tariff, (ii) higher exchange loss by RM0.3 million, and (iii) higher staff welfare expenses by RM0.3 million, offset by (iv) absence of fair value loss on investment securities of RM1.2 million.

In effect, the Group's profit before tax increased by RM0.7 million or 23%, from RM3.1 million to RM3.8 million in 3QFY2014.

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

The Group's revenue increased by RM2.5 million or 1%, from RM183.2 million in the preceding year's corresponding period to RM185.7 million for the current financial period ended 30 April 2014.

Other income was lower by RM1.4 million or 39%, primarily due to absence of an exchange gain of RM1.0 million and lower gain on disposal of investment securities by RM0.4 million.

Raw materials and consumables used and changes in work-in-progress and finished goods reduced by RM9.4 million or 24%, from RM39.5 million to RM30.0 million, because of lower electronic manufacturing services sales.

Employee benefits expense was higher by RM7.8 million or 14%, mainly due to (i) the adjustments to wage rates in response to further increases to the minimum wage rates in Malaysia that was effective in January 2013, along with further increases to the minimum wage rates in China, and (ii) lower variable staff compensation payout in the preceding year's corresponding period.



## **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 RM4.6 million or 11%, mainly due to (i) higher repair and maintenance expenses by RM1.4 million, (ii) higher utility by RM2.4 million as a result of increased electricity tariff, (iii) an exchange loss of RM0.5 million arising from the appreciation of US Dollars against Renminbi on US Dollars denominated payables, and (iv) higher legal fees by RM0.3 million, offset by (v) lower fair value loss on investment securities by RM1.5 million.

In effect, the Group's profit before tax increased by RM1.4 million or 15%, from RM9.1 million to RM10.5 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 RM3.8 million for the third quarter ended 30 April 2014, compared to RM1.4 million in the preceding quarter ended 31 January 2014.

The increase in profit before tax was mainly due to (i) fair value gain on investment securities of RM0.4 million as compared to fair value loss on investment securities of RM0.6 million in the preceding quarter, and (ii) lower repair and maintenance expenses by RM0.8 million.

## **17. Prospects**

The world-wide semiconductor revenue is projected to reach USD333 billion in 2014, representing a growth of 5.6% from USD315 billion in 2013.

In April 2014, the International Monetary Fund reported positive GDP growth for 2014 which is consistent with the industry forecast. It also pointed out that global recovery was still fragile despite improved prospects.

In Asia, the introduction of minimum wage controls and higher electricity tariffs in Malaysia and China continue to add pressure on the Group's profitability. Efforts to improve productivity, increase value-add services to our customers and expand its customer base are expected to cushion these challenges.

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

The Group was not subjected to any profit guarantee.

## 19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30/04/2014	Preceding year corresponding quarter 30/04/2013	Current year to date 30/04/2014	Preceding year corresponding quarter 30/04/2013
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	804	1,449	1,542	3,454
- Foreign tax	482	298	1,580	2,309
- Under/(over) provision in prior years	-	89	(58)	58
	<u>1,286</u>	<u>1,836</u>	<u>3,064</u>	<u>5,821</u>
Deferred tax				
- Relating to origination and reversal of temporary differences	-	-	-	-
	<u>1,286</u>	<u>1,836</u>	<u>3,064</u>	<u>5,821</u>

The effective tax rate was higher than the statutory tax rate, mainly due to higher foreign tax, offset by lower Malaysian tax expenses that arose from certain tax incentives.

The decrease in income tax expense was primarily because of recognizing reinvestment allowance.

## 20. Status of uncompleted corporate proposals

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

## 21. Group borrowings and debt securities

	<u>As At</u> <u>30/04/2014</u> RM'000	<u>As At</u> <u>31/07/2013</u> RM'000
(a) Obligations under finance leases - secured	2,822	4,293
Term loans – secured	40,778	61,847
Other loan – unsecured	1,374	1,374
	<u>44,974</u>	<u>67,514</u>
(b) Repayable within 12 months	25,369	29,954
Repayable after 12 months	19,605	37,560
	<u>44,974</u>	<u>67,514</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	19,461	28,966
Ringgit Malaysia (“RM”)	25,513	38,548
	<u>44,974</u>	<u>67,514</u>

## 22. Changes in material litigation

Further to the announcement made on 10 March 2014, there were no changes in material litigation as at the date of this announcement.

## 23. Dividend

No interim dividend has been declared for the financial quarter ended 30 April 2014.

## 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 RM4,204,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

**25. Realised and unrealised profits**

	As at end of current quarter 30/04/2014	As at preceding financial year end 31/07/2013
	RM'000	RM'000
- Realised	216,814	210,014
- Unrealised	3,835	6,182
Total retained profits of the Company and its subsidiaries	220,649	216,196
Consolidation adjustments	(33,985)	(31,559)
Total group retained profits as per consolidated accounts	186,664	184,637

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 29 May 2014