

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FOURTH QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JULY 2014**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 July 2014.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 JULY 2014**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/07/2014) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/07/2013) RM'000	CURRENT YEAR TO DATE (31/07/2014) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (31/07/2013) RM'000
Revenue	68,648	64,403	254,365	247,605
Other items of income				
Interest income	797	663	3,142	2,532
Dividend income	18	84	176	344
Other income	1,150	2,675	3,042	6,320
Items of expense				
Raw materials and consumables used	(8,584)	(11,968)	(38,501)	(50,761)
Changes in work-in-progress and finished goods	(963)	(282)	(1,113)	(985)
Employee benefits expense	(21,407)	(21,847)	(84,068)	(76,683)
Depreciation of property, plant and equipment	(14,837)	(12,993)	(53,720)	(54,903)
Finance costs	(462)	(545)	(2,248)	(2,182)
Other expenses	(15,008)	(15,234)	(61,271)	(57,263)
Profit before tax	9,352	4,956	19,804	14,024
Income tax expense	(400)	1,238	(3,464)	(4,583)
Profit net of tax	8,952	6,194	16,340	9,441
Other comprehensive income:				
Foreign currency translation	(7)	1,419	438	2,120
Other comprehensive income for the period, net of tax	(7)	1,419	438	2,120
Total comprehensive income for the period	8,945	7,613	16,778	11,561
Profit attributable to:				
Owners of the parent	6,679	4,128	10,883	4,569
Non-controlling interests	2,273	2,066	5,457	4,872
	8,952	6,194	16,340	9,441
Total comprehensive income attributable to:				
Owners of the parent	6,672	5,547	11,321	6,689
Non-controlling interests	2,273	2,066	5,457	4,872
	8,945	7,613	16,778	11,561
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	15.5	9.6	25.3	10.6

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

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JULY 2014**

	<u>AS AT END OF CURRENT QUARTER 31/07/2014</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2013</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	156,495	135,662
Deferred tax assets	4,747	5,114
	<u>161,242</u>	<u>140,776</u>
Current assets		
Inventories	11,589	16,035
Trade and other receivables	65,432	59,542
Prepayments	1,278	1,454
Tax recoverable	332	618
Investment securities	7,660	8,029
Cash and bank balances	139,368	139,227
	<u>225,659</u>	<u>224,905</u>
Total assets	<u>386,901</u>	<u>365,681</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Other reserves	9,101	7,776
Retained earnings	193,343	184,637
	<u>245,459</u>	<u>235,428</u>
Non-controlling interests	36,093	30,636
Total equity	<u>281,552</u>	<u>266,064</u>
Non-current liabilities		
Obligations under finance leases	557	2,351
Long term loans	36,215	35,209
Deferred tax liabilities	2,395	2,762
	<u>39,167</u>	<u>40,322</u>
Current liabilities		
Trade and other payables	28,732	28,888
Obligations under finance leases	1,856	1,942
Term loans	35,285	28,012
Income tax payable	309	453
	<u>66,182</u>	<u>59,295</u>
Total liabilities	<u>105,349</u>	<u>99,617</u>
Total equity and liabilities	<u>386,901</u>	<u>365,681</u>
Net assets per share attributable to owners of the parent (RM)	<u>5.71</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
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 JULY 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	-	-	438	-	10,883	11,321	5,457	16,778
Transaction with owners								
Transfer to statutory reserve fund	-	-	-	887	(887)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 July 2014	43,015	663	5,117	3,321	193,343	245,459	36,093	281,552

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	-	-	2,120	-	4,569	6,689	4,872	11,561
Transaction with owners								
Transfer to statutory reserve	-	-	-	1,529	(1,529)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 July 2013	43,015	663	4,679	2,434	184,637	235,428	30,636	266,064

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
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 JULY 2014

	Current year to date 31/07/2014 RM'000	Preceding year corresponding year to date 31/07/2013 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	19,804	14,024
Adjustments for:		
Depreciation of property, plant and equipment	53,720	54,903
Property, plant and equipment written off	94	6
Loss/(gain) on disposal of property, plant and equipment	9	(47)
Gain on disposal of assets held for sale	-	(329)
Gain on disposal of investment securities held for trading	(327)	(1,039)
Net fair value (gain)/loss on investment securities held for trading held for trading	(165)	1,936
Unrealised exchange loss/(gain)	1,441	(858)
Inventories written down	279	160
(Reversal of impairment loss)/impairment loss on trade receivables	(48)	67
Dividend income	(176)	(344)
Interest income	(3,142)	(2,532)
Finance costs	2,248	2,182
Operating cash flows before working capital changes	73,737	68,129
Decrease in inventories	4,167	4,379
(Increase)/decrease in prepayment, trade and other receivables	(5,666)	5,806
Decrease in trade and other payables	(4,140)	(18,720)
Cash generated from operations	68,098	59,594
Income taxes paid	(3,297)	(3,536)
Interest paid	(2,248)	(2,182)
Interest received	3,142	2,532
Net cash generated from operating activities	65,695	56,408
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	861	1,705
Dividend income	176	344
Purchase of property, plant and equipment	(70,753)	(32,679)
Proceeds from disposal of property, plant and equipment	9	51
Proceeds from disposal of assets held for sale	-	750
Net cash used in investing activities	(69,707)	(29,829)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,948)	(2,338)
Repayment of term loans	(28,350)	(26,818)
Proceeds from term loans	36,025	29,624
Dividend paid on ordinary shares	(1,290)	(1,290)
Net cash flows generated/(used in) financing activities	4,437	(822)
Net increase in cash and cash equivalents	425	25,757
Effects of exchange rate changes	(284)	(286)
Cash and cash equivalents at beginning of year	139,227	113,756
Cash and cash equivalents at end of the year	139,368	139,227

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.

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 or net loss or gain on available-for-sale financial assets) 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.

MFRS 10 Consolidated Financial Statements replaces part of MFRS 127 Consolidated and Separate Financial Statements that deals with consolidated financial statements and IC Interpretation 112 Consolidation – Special Purpose Entities. Under MFRS 10, an investor controls an investee when (a) the investor has power over an investee, (b) the investor has exposure, or rights, to variable returns from its investment with the investee, and (c) the investor has ability to use its power over the investee to affect the amount of the investor's returns. Under MFRS 127 Consolidated and Separate Financial Statements, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The application of MFRS 10 did not have effect on the financial performance and position of the Group and of the Company.

MFRS 12 Disclosures of Interests in Other Entities includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

2. Significant accounting policies (cont'd)

MFRS 13 Fair Value Measurement establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price and also requires additional disclosures. Application of MFRS 13 has not materially impacted the fair value measurement of the Group and of the Company.

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 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 year.

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 RM73,968,000.

12. Significant related party transactions

	<u>As at</u> <u>31/07/2014</u> RM'000	<u>As at</u> <u>31/07/2013</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	4,758	5,183
Interest on loan from Sunright Limited	117	117
Sales to:		
- KES Systems & Service (1993) Pte Ltd	375	251
- KES Systems, Inc.	1,614	42
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	1,334	788
- Kestronics (M) Sdn Bhd	39	3
- KES Systems, Inc.	-	405
- KEST Systems & Service Ltd	545	-

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 RM60,051,000 as at 31 July 2014.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter 31/07/2014 RM'000	Preceding year corresponding quarter 31/07/2013 RM'000	Current year to date 31/07/2014 RM'000	Preceding year corresponding period 31/07/2013 RM'000
Profit before tax is arrived at:				
After charging:				
Net fair value loss on investment securities held for trading	-	243	-	1,936
Plant and equipment written off	5	6	94	6
Inventories written down	279	-	279	160
Loss on disposal of property, plant and equipment	3	-	9	-
Impairment of trade receivables	-	67	-	67
Net foreign exchange loss	-	-	342	-
And crediting:				
Gain on disposal of property, plant and equipment	-	-	-	47
Gain on disposal of assets held for sale	-	-	-	329
Net fair value gain on investment securities held for trading	377	-	165	-
Gain on disposal on investment securities held for trading	-	302	327	1,039
Reversal of impairment loss on trade receivables	-	-	48	-
Net foreign exchange gain	151	874	-	1,855

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 improved by RM4.2 million or 7%, from RM64.4 million in the preceding year's fourth quarter to RM68.6 million for the current quarter ended 31 July 2014 ("4QFY2014"), mainly because of higher demand from burn-in and testing services.

Other income was lower by RM1.5 million or 57%, primarily due to (i) lower write-back of sundry payables by RM1.0 million and lower exchange gain by RM0.7 million.

Raw materials and consumables used and changes in work-in-progress and finished goods were reduced by RM2.7 million or 22%, from RM12.3 million to RM9.5 million, because of lower sales from electronic manufacturing services.

Depreciation was higher by RM1.8 million or 14%, because of purchases of plant, machinery and test equipment made in the current quarter.

Consequently, the Group's profit before tax increased by RM4.4 million or 89%, from RM5.0 million to RM9.4 million in 4QFY2014.

Analysis of the performance for the current financial year

The Group's revenue increased by RM6.8 million or 3%, from RM247.6 million in the preceding year to RM254.4 million for the current financial year. The improvement was mainly due to higher demand from burn-in and testing services.

Other income was lower by RM3.3 million or 52%, primarily due to absence of an exchange gain of RM1.9 million, lower write-back of sundry payables by RM0.6 million and lower gain on disposal of investment securities by RM0.7 million.

Raw materials and consumables used and changes in work-in-progress and finished goods reduced by RM12.1 million or 23%, from RM51.7 million to RM39.6 million, because of lower electronic manufacturing services sales.

Employee benefits expense was higher by RM7.4 million or 10%, mainly due to the adjustments to wage rates in response to further increases to the minimum wage rates in China and Malaysia, and lower variable staff compensation in the preceding year.

Depreciation was lower by RM1.2 million or 2%, because certain plant, machinery and test equipment were fully depreciated during the financial year.

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

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

Other expenses were higher by RM4.0 million or 7%, mainly due to (i) higher repair and maintenance expenses by RM1.9 million, (ii) higher utility by RM2.8 million as a result of increased electricity tariff, (iii) an exchange loss of RM0.3 million arising from the appreciation of US Dollars against Renminbi on US Dollars denominated payables, offset by (iv) absence of fair value loss on investment securities of RM1.9 million.

Consequently, the Group's profit before tax increased by RM5.8 million or 41%, from RM14.0 million to RM19.8 million in the current financial year.

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

The Group achieved profit before tax of RM9.4 million for the fourth quarter ended 31 July 2014, compared to RM3.8 million in the preceding quarter ended 30 April 2014.

The increase in profit before tax was primarily due to improved revenue, albeit a higher depreciation of RM1.6 million as new equipments were commissioned.

17. Prospects

World-wide semiconductor revenue is projected to reach USD336 billion in 2014, representing a growth of 6.7% from USD315 billion in 2013. This projection has been revised upwards by 1.1%, from previous growth forecast of 5.6%. However, the International Monetary Fund marked down its global growth projection by 0.3% to 3.4%, signaling an uneven global recovery.

In Asia, the introduction of minimum wage controls and higher electricity tariffs in Malaysia and China continue to exert pressure on profitability. The Group is focused in driving productivity, increasing value-add services to our customers and expanding its customer base to build on its strong financial foundations.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/07/2014	Preceding year corresponding quarter 31/07/2013	Current year to date 31/07/2014	Preceding year corresponding quarter 31/07/2013
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(411)	(2,105)	1,131	1,349
- Foreign tax	593	(193)	2,173	2,116
- Under provision in prior years	217	817	160	875
	400	(1,481)	3,464	4,340
Deferred tax				
- Relating to origination and reversal of temporary differences	(504)	(465)	(504)	(465)
- Under provision in prior years	504	708	504	708
	-	243	3,464	243
	400	(1,238)	3,464	4,583

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

The write-back of tax expense in the preceding year's corresponding quarter was due to the recognition of reinvestment allowances.

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>31/07/2014</u> RM'000	<u>As At</u> <u>31/07/2013</u> RM'000
(a) Obligations under finance leases - secured	2,413	4,293
Term loans – secured	70,126	61,847
Other loan – unsecured	1,374	1,374
	<u>73,913</u>	<u>67,514</u>
(b) Repayable within 12 months	37,141	29,954
Repayable after 12 months	36,772	37,560
	<u>73,913</u>	<u>67,514</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	15,857	28,966
Ringgit Malaysia (“RM”)	58,056	38,548
	<u>73,913</u>	<u>67,514</u>

22. Changes in material litigation

Further to the announcement made on 29 May 2014, there were no changes in material litigation as at the date of this announcement.

23. 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 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 RM10,883,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting year.

25. Realised and unrealised profits

	As at end of current quarter 31/07/2014	As at preceding financial year end 31/07/2013
	RM'000	RM'000
- Realised	225,669	210,014
- Unrealised	4,041	6,182
Total retained profits of the Company and its subsidiaries	229,710	216,196
Consolidation adjustments	(36,367)	(31,559)
Total group retained profits as per consolidated accounts	193,343	184,637

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 18 September 2014