



# **LKT INDUSTRIAL BERHAD**

(Incorporated in Malaysia)

## **UNAUDITED INTERIM FINANCIAL REPORT**

**FOR QUARTER ENDED 30 JUNE 2006**

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**LKT INDUSTRIAL BERHAD**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2006**

(The figures have not been audited)

	As At 30-Jun-06 RM'000	As At 31-Dec-05 RM'000 (restated)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	52,812	44,217
Investment properties	439	439
Prepaid lease payments	21,838	19,036
Investment in jointly controlled entities	206	236
Other investment	25	25
<b>Current assets</b>		
Inventories	42,283	33,205
Trade and other receivables	69,747	61,547
Tax recoverable	565	756
Cash and cash equivalents	17,787	23,633
	<u>130,382</u>	<u>119,141</u>
<b>TOTAL ASSETS</b>	<u><u>205,702</u></u>	<u><u>183,094</u></u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	68,628	66,329
Reserves	77,141	60,326
	<u>145,769</u>	<u>126,655</u>
<b>Minority interest</b>	63	75
<b>Total equity</b>	<u>145,832</u>	<u>126,730</u>
<b>Non-current liabilities</b>		
Government grants	48	62
Term loans	3,284	4,418
Deferred tax liabilities	4,435	4,130
<b>Current liabilities</b>		
Trade and other payables	46,026	43,120
Term loans	2,258	2,236
Current tax payable	3,819	2,398
	<u>52,103</u>	<u>47,754</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u><u>205,702</u></u>	<u><u>183,094</u></u>
Net assets per share (sen)	<u>212</u>	<u>191</u>

The Condensed Consolidated Balance Sheet should be read in conjunction with the Audited Financial Report for the year ended 31 December 2005.

The accompanying notes form an integral part of this interim report

**LKT INDUSTRIAL BERHAD**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENT**

**FOR THE PERIOD ENDED 30 JUNE 2006**

(The figures have not been audited)

	Note	Current Quarter 3 months ended		Cumulative Quarter 6 months ended	
		30-Jun-06 RM'000	30-Jun-05 RM'000	30-Jun-06 RM'000	30-Jun-05 RM'000
REVENUE		70,314	49,555	143,452	86,876
Cost of support services and goods sold		(54,111)	(40,821)	(107,485)	(70,118)
<hr/>					
Gross Profit		16,203	8,734	35,967	16,758
Other income		395	203	948	341
Distribution and administrative expenses		(3,281)	(2,323)	(6,476)	(5,020)
Other expenses		(890)	(207)	(1,354)	(344)
Finance costs		(66)	(96)	(147)	(181)
Shares of loss of jointly controlled entity		(25)	(15)	(30)	(30)
<hr/>					
Profit before taxation		12,336	6,296	28,908	11,524
Taxation		(2,785)	(1,204)	(5,712)	(3,217)
<hr/>					
Profit for the period		9,551	5,092	23,196	8,307
<hr/>					
<b>Attributable to:</b>					
Equity holders of the parent		9,556	5,105	23,208	8,276
Minority interest		(5)	(13)	(12)	31
<hr/>					
		9,551	5,092	23,196	8,307
<hr/>					
<b>Earnings per share</b>					
Basic earnings per share (sen)	29(a)	14.06	7.70	34.15	12.48
Diluted earnings per share (sen)	29(b)	14.00	7.69	34.00	12.46

The Condensed Consolidated Income Statement should be read in conjunction with the Audited Financial Report for the year ended 31 December 2005.

The accompanying notes form an integral part of this interim report

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 JUNE 2006**

(The figures have not been audited)

	← Non Distributable		Reserves			Distributable		Minority Interest	Total Equity
	Share Capital	Share Premium	Reserve on Consolidation	Assets Revaluation Reserve	Currency Translation Reserve	Accumulated Profit	Shareholders Fund		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
<b>Balance as at 1 .1. 2005</b>	66,304	3,647	4,475	5,306	2	25,370	105,104	52	105,156
Currency translation differences					(98)		(98)		(98)
Loss recognised directly to equity	-	-	-	-	(98)	-	(98)	-	(98)
Net profit attributable to shareholders						8,276	8,276	31	8,307
Issue of shares									-
- ESOS exercised	25						25		25
- Share premium from ESOS		6					6		6
<b>Balance as at 30.6.2005</b>	<b>66,329</b>	<b>3,653</b>	<b>4,475</b>	<b>5,306</b>	<b>(96)</b>	<b>33,646</b>	<b>113,313</b>	<b>83</b>	<b>113,396</b>
<b>Balance as at 1 .1. 2006</b>	66,329	3,653	4,475	5,306	(115)	47,029	126,677	75	126,752
Reclassification of reserve on consolidation			(4,475)			4,475	-		-
Reclass revaluation surplus net of deferred tax, for Investment property				(128)		106	(22)		(22)
<b>Balance as at 1 .1. 2006 (restated)</b>	<b>66,329</b>	<b>3,653</b>	<b>-</b>	<b>5,178</b>	<b>(115)</b>	<b>51,610</b>	<b>126,655</b>	<b>75</b>	<b>126,730</b>
Currency translation differences					117		117		117
Profit recognised directly to equity					117		117		117
Net profit attributable to shareholders						23,208	23,208	(12)	23,196
10% first and final tax exempt dividend - 2005						(6,853)	(6,853)		(6,853)
Issue of shares									
- ESOS exercised	2,299						2,299		2,299
- Share premium from ESOS		343					343		343
<b>Balance as at 30.6.2006</b>	<b>68,628</b>	<b>3,996</b>	<b>-</b>	<b>5,178</b>	<b>2</b>	<b>67,965</b>	<b>145,769</b>	<b>63</b>	<b>145,832</b>

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Audited Financial Report for the year ended 31 December 2005.  
The accompanying notes form an integral part of this interim report

**LKT INDUSTRIAL BERHAD**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 30 JUNE 2006**

(The figures have not been audited)

	Note	6 months ended	
		30-Jun-06 RM'000	30-Jun-05 RM'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit before taxation		28,908	11,524
Adjustments for:-			
Non-cash items		4,184	4,818
Non-operating items		(18)	167
Operating profit before working capital changes		33,074	16,509
Net change in current assets		(20,688)	(10,609)
Net change in current liabilities		2,545	9,258
Cash generated from operations		14,931	15,158
Tax paid		(3,946)	(1,211)
Tax refund		191	668
Net cash generated from operating activities		11,176	14,615
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Other investments		(11,604)	(2,899)
Net cash used in investing activities		(11,604)	(2,899)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from shares issued		2,642	31
Borrowings		(1,112)	(244)
Interest paid		(147)	(181)
Dividend paid		(6,853)	-
Net cash used in financing activities		(5,470)	(394)
Net change in Cash & Cash Equivalents		(5,898)	11,322
Effects of exchange rate changes		52	(98)
Cash & Cash equivalents brought forward		23,633	14,350
Cash & Cash equivalents carried forward		17,787	25,574

Cash and cash equivalents at the end of the financial period comprise the following:

	As At 30-Jun-06 RM'000	As At 30-Jun-05 RM'000
Cash and bank balances	9,491	25,406
Deposits with licensed banks	8,296	168
	17,787	25,574

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Audited Financial Report for the year ended 31 December 2005.

The accompanying notes form an integral part of this interim report

**LKT INDUSTRIAL BERHAD**

(Incorporated in Malaysia)

**NOTES TO THE INTERIM FINANCIAL REPORT**

(The figures have not been audited)

**1. Basis of preparation**

The interim financial report is unaudited and has been prepared in accordance with FRS 134<sup>2004</sup>, Interim Financial Reporting and paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial report should be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2005. These explanatory notes attached to the interim financial report provides an explanation of the 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 December 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2006 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

**2. Adoption of new and revised Financial Reporting Standards**

The Group has adopted all the 18 new and revised Financial Reporting Standards (“FRS”) issued by the Malaysian Accounting Standards Board (“MASB”) that are relevant to its operations effective from accounting periods beginning on 1 January 2006.

In addition to the above, the Group has also taken the option of early adoption of FRS 117, FRS 124 and FRS 139 for the financial period beginning 1 January 2006. However, a notice has been made by MASB on 3 May 2006 that the effective date of FRS 139 to be deferred to a date to be announced. Hence, the Group has elected to defer the adoption of this Standard.

The impact of these new and changes in accounting policies is disclosed in Note 3 below.

**3. Summary of new and changes in accounting policies**

The adoption of these new and revised FRS has resulted in changes to the Group’s accounting policies in the following areas that have affected the amounts reported for the current or prior years:

a. Share-based Payments (FRS 2)

FRS 2 requires the recognition of equity-settled share-based payments at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of FRS 2, the Group did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of FRS 2, the Standard has been applied retrospectively to all equity instruments granted after 31 December 2004 which were unvested as of 1 January 2006. The change in accounting policy has no impact on the results for the current financial period.

b. Business Combinations (FRS 3)

FRS 3 requires that, after reassessment, any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (previously referred to as "negative goodwill") is now recognised immediately in profit or loss. Prior to 1 January 2006, the Group had reflected the negative goodwill as reserve on consolidation under Equity.

In accordance with the transitional provision of FRS 3, the Group has applied the new accounting policy prospectively from 1 January 2006. The carrying amount of reserve on consolidation as at 1 January 2006 has been derecognised with an adjustment of RM4.475 million made to the opening retained earnings at 1 January 2006. Therefore, the change has had no impact on amounts reported for 2005 or prior periods.

c. Presentation of Financial Statements (FRS 101)

The adoption of FRS 101 has affected the presentation of minority interest and other disclosures. In the consolidated balance sheet, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the parent and to minority interest.

The presentation of minority interest in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

d. Property, plant and equipment (FRS 116)

FRS116 requires the review of the residual value and remaining useful life of each item of property, plant and equipment at least at each financial year-end. The Group shall revise the residual value and the estimated useful lives of certain property, plant and equipment with effect from 1 January 2006. The revisions will be accounted for as change of accounting estimates.

e. Leases (FRS 117)

The adoption of FRS 117 has resulted in a retrospective change in the accounting policy relating to the classification of leasehold lands. The up-front payments made for the leasehold lands represent prepaid lease payments and are amortised on a straight-line basis over the lease term. Prior to 1 January 2006, leasehold lands were classified as property, plant and equipment and were stated at valuation less accumulated depreciation and impairment loss. The leasehold lands were last revalued in 2004.

Upon the adoption of FRS 117 at 1 January 2006, the unamortized revalued amount of leasehold lands are retained as the surrogate carrying amount of prepaid lease payments as allowed by the transitional provisions of FRS 117. The reclassification of leasehold lands as prepaid lease payments has been accounted for retrospectively and comparative amounts as at 31 December 2005 have been restated.

f. Investment property (FRS 140)

Under FRS 140, properties which are held for rental and/or capital appreciation will be classified as investment properties. Investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are recognised in profit or loss in the period in which they arise. Prior to 1 January 2006, these properties were classified as property, plant and equipment and were stated at valuation less accumulated depreciation and impairment loss. Revaluations were carried out once every five years and any revaluation increase was taken to equity as a revaluation surplus. The investment properties were last revalued in 2004.

In accordance with the transitional provisions of FRS 140, this change in accounting policy is applied prospectively and the comparatives as at 31 December 2005 are not restated. Instead, the changes have been accounted for by restating the following opening balances in the balance sheet as at 1 January 2006:

	As At 1 January 2006 RM'000
Decrease in assets revaluation reserve	(128)
Increase in retained earnings	106
Increase in deferred tax liabilities	<u>22</u>

**4. Audit opinion**

The audit report for the audited financial statements of the Group for the year ended 31 December 2005 was not subject to any qualification.

**5. Seasonality or cyclical of interim operations**

The Group's operation is dependent on the cyclical trend of the electronics and semiconductors industries.

**6. Unusual items due to their nature, size or incidence**

There are no unusual items affecting assets, liabilities, equity, net income, or cash flows during the current quarter and financial period-to-date.

**7. Changes in estimates**

There were no changes in estimates that have had material effect in the current quarter and financial period-to-date.

**8. Debt and equity securities**

There were no issuances, cancellations, repurchases, resale and repayment of debt and equity securities for the period ended 30 June 2006 other than the issuance of 2,299,000 ordinary shares of RM1.00 each for cash pursuant to the Company's ESOS.



## 9. Dividends paid

A 10% first and final tax exempt dividend amounting to RM6,853,036 for the financial year ended 31 December 2005 was paid on 16 May 2006.

## 10. Segmental reporting

(a) Analysis by business segment

	Manufacturing RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>REVENUE</b>				
External sales	143,401	51	-	143,452
Inter segment sales	29,367	4,458	(33,825)	-
	<u>172,768</u>	<u>4,509</u>	<u>(33,825)</u>	<u>143,452</u>

	Manufacturing RM'000	Others RM'000	Eliminations RM'000	Consolidated RM'000
<b>RESULTS</b>				
Segment result (external)	29,399	130	(603)	28,926
Interest income				159
Finance expenses				(147)
Share of result of joint venture				(30)
Profit before taxation				<u>28,908</u>
Taxation				<u>(5,712)</u>
Profit after tax				<u>23,196</u>
Profit attributable to:				
Equity holders of the parent				23,208
Minority interest				<u>(12)</u>
				<u>23,196</u>

### OTHER INFORMATION

Segment assets	195,142	9,789		204,931
Investment in joint venture	206			206
Unallocated corporate assets				<u>565</u>
Total assets				<u>205,702</u>
Segment liabilities	45,053	1,021		46,074
Unallocated corporate liabilities				<u>13,796</u>
Total liabilities				<u>59,870</u>
Capital expenditure	11,517	302		11,819
Depreciation	3,220	197		<u>3,417</u>

(b) Secondary Segment – Geographical

In determining the geographical segments of the Group, revenue is based on the geographical location of the customers. Total assets and capital expenditure are based on the geographical location of assets.

	Revenue RM'000	Total Assets Employed RM'000	Capital Expenditure RM'000
Malaysia	30,934	200,670	11,644
Asia (excludes Malaysia)	61,970	5,032	175
North America	42,185		
Europe	5,902		
Others	2,461		
	<u>143,452</u>	<u>205,702</u>	<u>11,819</u>

Inter-segment pricing on inter segment transactions are determined at arm's length according to the normal course of business.

**11. Property, plant and equipment**

The valuations of the property, plant and equipment have been brought forward without any amendments from the previous audited financial statement.

Property, plant and equipment amounting to RM11,819,000 were acquired during current year to date (six months ended 30 June 2005: RM3,221,000).

Property, plant and equipment costing RM279,000 were disposed during current year to date (six months ended 30 June 2005: RM972,000).

**12. Subsequent events**

There were no material events subsequent to the end of the current quarter.

**13. Changes in the composition of the Group**

There were no changes in the composition of the Group during the current quarter.

**14. Contingent liabilities**

There was no contingent liability since the last annual balance sheet date.

**15. Capital commitments**

	30 June 2006 RM'000	30 June 2005 RM'000
Contracted but not provided for	<u>13,821</u>	<u>2,600</u>

## 16. Related party transactions

There were no intercompany transactions other than those incurred in the ordinary course of business consistent with the previous quarters.

There were no transactions with the directors and key management personnel other than the remuneration package paid to them in accordance with the terms and conditions of their appointment.

## 17. Review of performance

The Group recorded a profit before tax of RM12,336,000 as compared to RM16,572,000 in the last quarter. This was due to the appreciation of Ringgit against USD which has resulted in a lower Ringgit revenue coupled with the rise in commodity prices during the current quarter.

## 18. Variation of results against immediate preceding year's corresponding quarter

The Group recorded a profit before tax of RM12,336,000 for the current quarter as compared to RM6,296,000 in the immediate preceding year's corresponding quarter. This is basically due to the favourable group sales coupled with better product mix and prudent cost control.

## 19. Current year prospects

The directors expect the performance to be better for the current financial year.

## 20. Profit forecast and profit guarantee

No profit forecast or profit guarantee has been issued by the Group.

## 21. Taxation

	30 June 2006 RM'000	30 June 2005 RM'000
Current period		
- provision for taxation	6,189	3,153
- deferred taxation	304	64
	<hr/> 6,493	<hr/> 3,217
Prior period		
- over provision for taxation	(780)	-
- deferred taxation	(1)	-
	<hr/> 5,712	<hr/> 3,217

The effective tax rate for the period is lower than statutory tax rate mainly due to the approval of pioneer certificate granted by MITI.

## 22. Unquoted investments and properties

There are no sales of unquoted investments and/or properties for the current quarter and current financial period to-date.

### 23. Quoted investments

There are no purchase or disposal of quoted securities for the current quarter and current financial period to-date.

### 24. Corporate proposal

There are no outstanding corporate proposals as at the date of this report.

### 25. Borrowings and debt securities

There are no debts securities as at 30 June 2006 other than the two secured term loans obtained by a subsidiary. The secured term loans are repayable by 36 to 60 monthly installments commencing on May and October 2005 with interest rates ranging from 3.20% to 7.50% pa. All borrowings are denominated in Ringgit Malaysia.

	30 June 2006 RM'000	30 June 2005 RM'000
Amount due within 1 year	2,258	1,372
Amount due after 1 to 5 years	3,284	3,384
	<u>5,542</u>	<u>4,756</u>

### 26. Off balance sheet financial instruments

There are no off balance sheet financial instruments as at the date of this report other than:-

	Contract Amount RM'000
Forward foreign exchange contracts (within 1 year)	97,204
	=====

Credit risk, or the risk of counterparties defaulting, is controlled by limiting the Group's association to creditworthy financial institutions in Malaysia

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Exposure to market risk may be reduced through offsetting on and off balance sheet positions.

There are no significant credit and market risks posed by the above off balance sheet financial instruments.

The accounting policies for the off balance sheet financial instruments is as follows:-

The Group enters into foreign currency forward contracts as a hedge against foreign trade receivable. Market value gains and losses are recognised and the resulting credit or debit offsets foreign exchange gains or losses on those receivables.

### 27. Material litigation

There is no pending material litigation.

## 28. Proposed dividend

No dividend has been recommended for the current quarter.

## 29. Earnings per share

### (a) Basic earnings per share

The basic earnings per share for the financial period has been calculated based on the Group's net profit attributable to shareholders of RM23,208,000 for the 6 months over the weighted average number of ordinary shares in issue of 67,967,190.

Weighted average number of ordinary shares used for calculation of basic earnings per share:

	6 months ended 30 June 2006	6 months ended 30 June 2005
Issued ordinary shares at beginning of period	66,329,357	66,304,357
Effect of shares issued during the period	1,637,833	22,167
Weighted average number of ordinary shares	<u>67,967,190</u>	<u>66,326,524</u>

### (b) Diluted earnings per share

The diluted earnings per share for the financial period has been calculated based on the Group's net profit attributable to shareholders of RM23,208,000 for the 6 months over the adjusted weighted average number of ordinary shares issue and issuable of 68,261,961.

Adjusted weighted average number of ordinary shares issued and issuable used for calculation of diluted earnings per share:

	6 months ended 30 June 2006	6 months ended 30 June 2005
Issued ordinary shares at beginning of period	66,329,357	66,304,357
Effect of shares issued during the period	1,637,833	22,167
Effect of share options	294,771	99,591
Adjusted weighted average number of ordinary shares issued and issuable	<u>68,261,961</u>	<u>66,426,115</u>

**30. Authorisation for issue**

The Board of Directors authorised the issue of this unaudited interim financial report on 27th July 2006.

By Order of the Board  
**LKT Industrial Berhad (298188 A)**

Lam Voon Kean (MIA 4793)  
Company Secretary

Penang  
27 July 2006