

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2014**

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

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

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/01/2014) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2013) RM'000	CURRENT YEAR TO DATE (31/01/2014) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (31/01/2013) RM'000
Revenue	61,824	58,694	126,610	122,930
Other items of income				
Interest income	802	528	1,663	1,265
Dividend income	50	161	107	203
Other income	633	1,652	1,794	2,788
Items of expense				
Raw materials and consumables used	(10,361)	(13,507)	(23,204)	(27,929)
Changes in work-in-progress and finished goods	(432)	705	511	348
Employee benefits expense	(20,606)	(17,397)	(41,764)	(35,582)
Depreciation of property, plant and equipment	(12,842)	(14,240)	(25,640)	(28,522)
Finance costs	(599)	(543)	(1,290)	(1,196)
Other expenses	(17,021)	(13,959)	(32,108)	(28,310)
Profit before tax	1,448	2,094	6,679	5,995
Income tax expense	(106)	(2,189)	(1,778)	(3,985)
Profit/(loss), net of tax	1,342	(95)	4,901	2,010
Other comprehensive income:				
Foreign currency translation	676	712	1,575	712
Other comprehensive income for the period, net of tax	676	712	1,575	712
Total comprehensive income for the period	2,018	617	6,476	2,722
Profit/(loss) attributable to:				
Owners of the parent	90	(889)	2,844	394
Non-controlling interests	1,252	794	2,057	1,616
	1,342	(95)	4,901	2,010
Total comprehensive income attributable to:				
Owners of the parent	766	(177)	4,419	1,106
Non-controlling interests	1,252	794	2,057	1,616
	2,018	617	6,476	2,722
Earnings/(loss) per share attributable to owners of the parent (sen per share):				
- Basic	0.2	(2.1)	6.6	0.9

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 JANUARY 2014**

	<u>AS AT END OF CURRENT QUARTER 31/01/2014</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2013</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	136,656	135,662
Deferred tax assets	5,114	5,114
	<u>141,770</u>	<u>140,776</u>
Current assets		
Inventories	14,570	16,035
Trade and other receivables	60,252	59,542
Prepayments	1,756	1,454
Tax recoverable	202	618
Investment securities	6,852	8,029
Cash and bank balances	136,843	139,227
	<u>220,475</u>	<u>224,905</u>
Total assets	<u>362,245</u>	<u>365,681</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Other reserves	10,238	7,776
Retained earnings	185,304	184,637
	<u>238,557</u>	<u>235,428</u>
Non-controlling interests	32,693	30,636
Total equity	<u>271,250</u>	<u>266,064</u>
Non-current liabilities		
Obligations under finance leases	1,429	2,351
Long term loans	24,632	35,209
Deferred tax liabilities	2,762	2,762
	<u>28,823</u>	<u>40,322</u>
Current liabilities		
Trade and other payables	36,051	28,888
Obligations under finance leases	1,876	1,942
Term loans	23,936	28,012
Income tax payable	309	453
	<u>62,172</u>	<u>59,295</u>
Total liabilities	<u>90,995</u>	<u>99,617</u>
Total equity and liabilities	<u>362,245</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 31 JANUARY 2014

FY2014	< ----- Attributable to owners of the parent ----- >						Non-controlling interests	Total equity
	Share capital	< ----- Non-distributable ----- >			Distributable	Total		
		Share premium	Foreign currency translation reserve	Statutory reserve fund	Retained earnings			
	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	-	-	1,575	-	2,844	4,419	2,057	6,476
Transaction with owners								
Transfer to statutory reserve fund	-	-	-	887	(887)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 January 2014	43,015	663	6,254	3,321	185,304	238,557	32,693	271,250

FY2013	< ----- Attributable to owners of the parent ----- >						Non-controlling interests	Total equity
	Share capital	< ----- Non-distributable ----- >			Distributable	Total		
		Share premium	Foreign currency translation reserve	Statutory reserve fund	Retained earnings			
	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
Transaction with owners								
Transfer to statutory reserve fund	-	-	-	1,529	(1,529)	-	-	-
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 January 2013	43,015	663	3,271	2,434	180,462	229,845	27,380	257,225

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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Company No : 13022-A

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

	Current year to date 31/01/2014	Preceding year corresponding year to date 31/01/2013
	RM'000	RM'000
OPERATING ACTIVITIES		
Profit before tax	6,679	5,995
Adjustments for:		
Depreciation of property, plant and equipment	25,640	28,522
Plant and equipment written off	89	-
Gain on disposal of property, plant and equipment	-	(395)
Gain on disposal of investment securities held for trading	(327)	-
Net fair value loss on investment securities held for trading	643	453
Unrealised exchange loss/(gain)	508	(1,090)
Inventories written down	-	160
Reversal of impairment loss on trade receivables	(27)	-
Dividend income	(107)	(203)
Interest income	(1,663)	(1,265)
Finance costs	1,290	1,196
Operating cash flows before working capital changes	32,725	33,373
Decrease in inventories	1,465	1,342
(Increase)/decrease in prepayment, trade and other receivables	(985)	7,270
Increase/(decrease) in trade and other payables	990	(19,063)
Cash generated from operations	34,195	22,922
Income taxes paid	(1,528)	(1,917)
Interest paid	(1,290)	(1,196)
Interest received	1,663	1,265
Net cash generated from operating activities	33,040	21,074
INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	861	-
Dividend income	107	203
Purchase of property, plant and equipment	(17,809)	(23,140)
Proceeds from disposal of property, plant and equipment	-	772
Net cash used in investing activities	(16,841)	(22,165)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(988)	(2,112)
Repayment of term loans	(16,259)	(13,741)
Proceeds from term loans	-	736
Dividend paid on ordinary shares	(1,290)	(1,290)
Net cash flows used in financing activities	(18,537)	(16,407)
Net decrease in cash and cash equivalents	(2,338)	(17,498)
Effects of exchange rate changes	(46)	(168)
Cash and cash equivalents at beginning of year	139,227	113,756
Cash and cash equivalents at end of the period	136,843	96,090

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 RM25,080,000.

12. Significant related party transactions

	<u>As at</u> <u>31/01/2014</u> RM'000	<u>As at</u> <u>31/01/2013</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	2,880	2,850
Interest on loan from Sunright Limited	59	58
Sales to:		
- KES Systems & Service (1993) Pte Ltd	129	55
- KES Systems, Inc.	-	21
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	81	254
- Kestronics (M) Sdn Bhd	4	1
- KES Systems, Inc.	283	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

Commitments for purchase of property, plant and equipment amounted to RM3,695,000 as at 31 January 2014.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/01/2014	31/01/2013	31/01/2014	31/01/2013
	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	619	401	643	453
Plant and equipment written off	88	-	89	-
Inventories written down	-	-	-	160
Net foreign exchange loss	269	-	-	-
And crediting:				
Gain on disposal of property, plant and equipment	-	375	-	395
Gain on disposal on investment securities held for trading	-	-	327	-
Reversal of impairment loss on trade receivables	-	-	27	-
Net foreign exchange gain	-	800	183	1,339

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 was higher by RM3.1 million or 5%, from RM58.7 million in the preceding year's second quarter to RM61.8 million for the current quarter ended 31 January 2014 ("2QFY2014") mainly because of higher demand from burn-in and testing services.

Interest income increased by RM0.3 million or 52% due to higher deposits.

Other income was lower by RM1.0 million, mainly due to an absence of exchange gain of RM0.8 million.

Raw materials and consumables used and changes in work-in-progress decreased by RM2.0 million or 16%, from RM12.8 million to RM10.8 million, because of lower sales from electronic manufacturing services.

Employee benefits expense was higher by RM3.2 million or 18%, mainly due to more hires of contract workers, along with adjustments to wage rates in response to minimum wage rates in Malaysia that was effective in January 2013, along with further increases to the minimum wage rates in China.

Depreciation reduced by RM1.4 million or 10%, as certain machinery and test equipment were fully depreciated.

Other expenses increased by RM3.1 million or 22%, from RM14.0 million to RM17.0 million, mainly due to (i) higher repair and maintenance expenses by RM1.2 million, (ii) increased utility usage by RM0.6 million and (iii) exchange loss of RM0.3 million (as compared to an exchange gain recorded in "Other income" in the preceding year's second quarter).

Consequently, the Group's profit before tax was lower by RM0.6 million or 31%, from RM2.1 million to RM1.4 million in 2QFY2014.

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

The Group's revenue increased by RM3.7 million or 3%, from RM122.9 million in the preceding year's corresponding period to RM126.6 million for the current financial period ended 31 January 2014, as a result of higher demand from burn-in and testing services.

Other income was lower by RM1.0 million, primarily due to lower exchange gain by RM1.2 million, following a gradual depreciation of US Dollars against Renminbi on US Dollars denominated payables.

Raw materials and consumables used and changes in work-in-progress decreased by RM4.9 million or 18%, from RM27.6 million to RM22.7 million, because of reduced electronic manufacturing services sales.

Employee benefits expense was higher by RM6.2 million or 17% mainly because of more hires of contract workers, along with adjustments to wage rates in response to minimum wage rates in Malaysia that was effective in January 2013, along with further increases to the minimum wage rates in China.

Depreciation was lower by RM2.9 million or 10%, as certain machinery and test equipment were fully depreciated.

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 RM3.8 million or 13%, mainly due to (i) higher repair and maintenance expenses by RM1.4 million, (ii) increased utility usage by RM1.1 million, and (iii) higher fair value loss on investment securities by RM0.2 million.

Consequently, the Group's profit before tax improved by RM0.7 million or 11%, from RM6.0 million to RM6.7 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 RM1.4 million for the second quarter ended 31 January 2014, compared to RM5.2 million in the preceding quarter ended 31 October 2013.

The decrease in profit before tax by RM3.8 million was mainly due to (i) lower sales, (ii) an exchange loss of RM0.3 million in current quarter as compared to an exchange gain of RM0.5 million recorded in the preceding quarter, (iii) absence of gain on disposal of investment securities of RM0.3 million, and (iv) higher fair value loss on investment securities by RM0.6 million.

17. Prospects

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

The International Monetary Fund has projected positive GDP growth in 2014 which is consistent with the industry forecast. However, concerns of a "sharper-than-expected" slowdown in China, deflation risks and a volatile recovery in the Eurozone may weigh on the growth prospects.

The Group will continue with its vigilant and innovative efforts to servicing existing customers and winning new customers, by delivering value and offering total solutions expected of our world-class manufacturing excellence.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/01/2014	Preceding year corresponding quarter 31/01/2013	Current year to date 31/01/2014	Preceding year corresponding quarter 31/01/2013
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(273)	949	738	2,005
- Foreign tax	435	1,240	1,098	2,011
- Over provision in prior years	(58)	-	(58)	(31)
	106	2,189	1,778	3,985
Deferred tax				
- Relating to origination and reversal of temporary differences	-	-	-	-
	106	2,189	1,778	3,985

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>31/01/2014</u> RM'000	<u>As At</u> <u>31/07/2013</u> RM'000
(a) Obligations under finance leases - secured	3,305	4,293
Term loans – secured	47,194	61,847
Other loan – unsecured	1,374	1,374
	<u>51,873</u>	<u>67,514</u>
(b) Repayable within 12 months	25,812	29,954
Repayable after 12 months	26,061	37,560
	<u>51,873</u>	<u>67,514</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	23,142	28,966
Ringgit Malaysia (“RM”)	28,731	38,548
	<u>51,873</u>	<u>67,514</u>

22. Changes in material litigation

Further to the announcement made on 25 November 2013, 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 31 January 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 RM2,844,000 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 31/01/2014	As at preceding financial year end 31/07/2013
	RM'000	RM'000
- Realised	213,999	210,014
- Unrealised	4,173	6,182
Total retained profits of the Company and its subsidiaries	218,172	216,196
Consolidation adjustments	(32,868)	(31,559)
Total group retained profits as per consolidated accounts	185,304	184,637

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 10 March 2014