

Financial Results (v11)

RELEASED

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COMPANY INFORMATION SECTION			
Announcement Type	<input checked="" type="radio"/> New Announcement <input type="radio"/> Amended Announcement		
Company Name	KESM INDUSTRIES BERHAD		
Stock Name	KESM		
Stock Code	9334		
Board	Main Market		
Submitting Secretarial Firm	EPSILON ADVISORY SERVICES SDN BHD		

CONTACT DETAIL			
Contact Person	Designation	Contact No	Email Address
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MAIN			
General Information			
Financial Year End	31 Jul 2016		
Quarter	2 Qtr		
Quarterly report for the financial period ended	31 Jan 2016		
The figures	have not been audited		
Remarks			
Please attach the full Quarterly Report here	No	File Name	Size
	1	KESM_2Q FY2016 Financial Results.pdf	149.0KB
	2	KESM_2Q FY2016 Financial Notes.pdf	41.3KB

DEFAULT CURRENCY

Currency	Malaysian Ringgit (MYR)
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Part A2 : SUMMARY OF KEY FINANCIAL INFORMATION				
Summary of the Key Financial Information for the financial period ended	31 Jan 2016			
	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	31 Jan 2016	31 Jan 2015	31 Jan 2016	31 Jan 2015
	[dd/mm/yyyy] \$'\$000	[dd/mm/yyyy] \$'\$000	[dd/mm/yyyy] \$'\$000	[dd/mm/yyyy] \$'\$000
1. Revenue	70,259	62,096	140,438	131,259
2. Profit/(loss) before Tax	7,809	4,235	17,648	10,134
3. Profit/(loss) for the period	6,999	3,151	15,065	7,509
4. Profit/(loss) attributable to ordinary equity holders of the parent	6,999	2,089	15,065	4,848
5. Basic earnings/(loss) per share (Subunit)	16.30	4.90	35.00	11.30
6. Proposed/Declared dividend per share (Subunit)	0.00		0.00	
	AS AT END OF CURRENT QUARTER		AS AT PRECEDING FINANCIAL YEAR END	
7. Net assets per share attributable to ordinary equity holders of the parent (\$\$)	6.3974		6.0552	

Remarks				
In a currency system, there is usually a main unit (base) and subunit that is a fraction amount of the main unit. Example for the subunit as follows:				
Country	Base unit	Subunit		
Malaysia	Ringgit	Sen		
United States	Dollar	Cent		
United Kingdom	Pound	Pence		
Part A3 : ADDITIONAL INFORMATION (This Information is for Exchange's Internal Use only)				
	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	31 Jan 2016	31 Jan 2015	31 Jan 2016	31 Jan 2015
	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000
1. Gross interest income	549	648	992	1,406
2. Gross interest expense	793	772	1,692	1,598
Remarks				

OTHER CURRENCY

Other Currency				
Part A2 : SUMMARY OF KEY FINANCIAL INFORMATION				
Summary of the Key Financial Information for the financial period ended	31 Jan 2016			
	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000
1. Revenue				
2. Profit/(loss) before Tax				
3. Profit/(loss) for the period				
4. Profit/(loss) attributable to ordinary equity holders of the parent				
5. Basic earnings/(loss) per share (Subunit)				
6. Proposed/Declared dividend per share (Subunit)				
	AS AT END OF CURRENT QUARTER		AS AT PRECEDING FINANCIAL YEAR END	
7. Net assets per share attributable to ordinary equity holders of the parent (\$\$)				
Remarks				

In a currency system, there is usually a main unit (base) and subunit that is a fraction amount of the main unit.
Example for the subunit as follows:

Country	Base unit	Subunit
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Part A3 : ADDITIONAL INFORMATION (This Information is for Exchange's Internal Use only)				
	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER	PRECEDING YEAR CORRESPONDING QUARTER	CURRENT YEAR TO DATE	PRECEDING YEAR CORRESPONDING PERIOD
	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000	[dd/mm/yyyy] \$\$'000
1. Gross interest income				
2. Gross interest expense				

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2016**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 January 2016.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 JANUARY 2016**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/01/2016) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2015) RM'000	CURRENT YEAR TO DATE (31/01/2016) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (31/01/2015) RM'000
Revenue	70,259	62,096	140,438	131,259
Other items of income				
Interest income	549	648	992	1,406
Dividend income	40	40	58	104
Other income	479	1,536	1,456	3,008
Items of expense				
Raw materials and consumables used	(9,002)	(8,586)	(17,075)	(16,686)
Changes in work-in-progress and finished goods	469	1,311	353	1,017
Employee benefits expense	(23,188)	(21,582)	(46,262)	(45,929)
Depreciation of property, plant and equipment	(13,446)	(14,403)	(27,711)	(28,561)
Finance costs	(793)	(772)	(1,692)	(1,598)
Other expenses	(17,558)	(16,053)	(32,909)	(33,886)
Profit before tax	7,809	4,235	17,648	10,134
Income tax expense	(810)	(1,084)	(2,583)	(2,625)
Profit net of tax	6,999	3,151	15,065	7,509
Other comprehensive income:				
Foreign currency translation	(3,507)	2,773	942	3,348
Other comprehensive income for the period, net of tax	(3,507)	2,773	942	3,348
Total comprehensive income for the period	3,492	5,924	16,007	10,857
Profit attributable to:				
Owners of the Company	6,999	2,089	15,065	4,848
Non-controlling interests	-	1,062	-	2,661
	6,999	3,151	15,065	7,509
Total comprehensive income attributable to:				
Owners of the Company	3,492	4,862	16,007	8,196
Non-controlling interests	-	1,062	-	2,661
	3,492	5,924	16,007	10,857
Earnings per share attributable to owners of the Company (sen per share):				
- Basic	16.3	4.9	35.0	11.3

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2015 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 31 JANUARY 2016**

	<u>AS AT END OF CURRENT QUARTER 31/01/2016</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2015</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	165,285	183,031
Deferred tax assets	<u>4,539</u>	<u>4,539</u>
	<u>169,824</u>	<u>187,570</u>
Current assets		
Inventories	10,605	10,089
Trade and other receivables	68,631	67,025
Prepayments	5,260	3,910
Investment securities	4,120	4,059
Cash and bank balances	<u>105,832</u>	<u>93,924</u>
	<u>194,448</u>	<u>179,007</u>
Total assets	<u>364,272</u>	<u>366,577</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	43,015	43,015
Other reserves	20,210	18,518
Retained earnings	<u>211,958</u>	<u>198,933</u>
Total equity	<u>275,183</u>	<u>260,466</u>
Non-current liabilities		
Obligations under finance leases	2,273	38
Long term loans	21,990	32,945
Deferred tax liabilities	<u>2,002</u>	<u>2,002</u>
	<u>26,265</u>	<u>34,985</u>
Current liabilities		
Trade and other payables	27,177	30,367
Obligations under finance leases	1,419	619
Term loans	32,144	39,756
Income tax payable	<u>2,084</u>	<u>384</u>
	<u>62,824</u>	<u>71,126</u>
Total liabilities	<u>89,089</u>	<u>106,111</u>
Total equity and liabilities	<u>364,272</u>	<u>366,577</u>
Net assets per share attributable to owners of the Company (RM)	<u>6.40</u>	<u>6.06</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 2015 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 2016**

FY2016	< ----- Attributable to owners of the Company ----- >						Total equity
	Share capital	< ----- Non-distributable ----- >				Distributable	
		Share premium	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 August 2015	43,015	663	11,736	3,879	2,240	198,933	260,466
Total comprehensive income	-	-	942	-	-	15,065	16,007
Transaction with owners							
Transfer to statutory reserve fund	-	-	-	750	-	(750)	-
Dividend	-	-	-	-	-	(1,290)	(1,290)
At 31 January 2016	43,015	663	12,678	4,629	2,240	211,958	275,183

FY2015	< ----- Attributable to owners of the Company ----- >						Total	Total equity
	Share capital	< ----- Non-distributable ----- >				Distributable		
		Share premium	Foreign currency translation reserve	Statutory reserve fund	Capital reserve	Retained earnings		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 August 2014	43,015	663	5,117	3,321	-	193,343	245,459	245,459
Total comprehensive income	-	-	3,348	-	-	4,848	8,196	8,196
Transaction with owners								
Transfer to statutory reserve fund	-	-	-	558	-	(558)	-	-
Dividend	-	-	-	-	-	(1,290)	(1,290)	(1,290)
At 31 January 2015	43,015	663	8,465	3,879	-	196,343	252,365	252,365

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 2015 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 31 JANUARY 2016

	Current year to date 31/01/2016	Preceding year corresponding year to date 31/01/2015
	RM'000	RM'000
OPERATING ACTIVITIES		
Profit before tax	17,648	10,134
Adjustments for:		
Depreciation of property, plant and equipment	27,711	28,561
(Gain)/loss on disposal of property, plant and equipment	(65)	101
Plant and equipment written off	27	-
Gain on disposal of investment securities held for trading	-	(697)
Inventory written down	283	-
Net fair value (gain)/loss on investment securities held for trading	(61)	1,991
Unrealised exchange loss	1,453	476
Reversal of impairment loss on trade receivables	-	(21)
Dividend income	(58)	(104)
Interest income	(992)	(1,406)
Finance costs	1,692	1,598
Operating cash flows before working capital changes	47,638	40,633
(Increase)/decrease in inventories	(799)	273
(Increase)/decrease in prepayment, trade and other receivables	(4,298)	3,682
Decrease in trade and other payables	(4,092)	(5,464)
Cash generated from operations	38,449	39,124
Income taxes paid	(883)	(1,816)
Interest paid	(1,692)	(1,598)
Interest received	992	1,406
Net cash generated from operating activities	36,866	37,116
INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	-	1,277
Dividend income	58	104
Purchase of property, plant and equipment	(4,730)	(58,369)
Proceeds from disposal of property, plant and equipment	65	1,614
Net cash used in investing activities	(4,607)	(55,374)
FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(507)	(956)
Repayment of term loans	(21,745)	(17,765)
Proceeds from term loans	3,067	32,672
Dividend paid on ordinary shares	(1,290)	-
Net cash flows (used in)/generated from financing activities	(20,475)	13,951
Net increase/(decrease) in cash and cash equivalents	11,784	(4,307)
Effects of exchange rate changes	124	1,262
Cash and cash equivalents at beginning of year	93,924	139,368
Cash and cash equivalents at end of the period	105,832	136,323

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2015 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 2015. 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 2015.

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 2015.

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 2015. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

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 2015 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/payable

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 2015, was paid on 5 February 2016.

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 amounting to RM9,174,000, and disposed plant and equipment of net book value amounting to RM27,000.

12. Significant related party transactions

	Current year to date 31/01/2016 <hr/> RM'000	Preceding year corresponding year to date 31/01/2015 <hr/> RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries:		
Management fees charged by Sunright Limited	3,557	2,651
Dividend paid to Sunright Limited	625	-
Interest on loan from Sunright Limited	-	59
Sales to:		
- KES Systems & Service (1993) Pte Ltd	-	20
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	41	123
- Kestronics (M) Sdn Bhd	40	19
- KESU Systems & Service, Inc.	-	249
- KEST Systems & Service Ltd	15	50
- KES Systems & Service (Shanghai) Co., Ltd	21	211

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 RM3,225,000 as at 31 January 2016.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/01/2016	31/01/2015	31/01/2016	31/01/2015
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Loss on disposal of property, plant and equipment	-	-	-	101
Fair value loss on investment securities held for trading	-	544	-	1,991
Plant and equipment written off	13	-	27	-
Net foreign exchange loss	1,176	-	-	-
And crediting:				
Gain on disposal of property, plant and equipment	-	57	65	-
Gain on disposal on investment securities held for trading	-	-	-	697
Fair value gain on investment securities held for trading	163	-	61	-
Reversal of impairment loss on trade receivables	-	-	-	21
Net foreign exchange gain	-	814	960	882

There was 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 RM8.2 million from RM62.1 million in the preceding year's second quarter to RM70.3 million for the current quarter ended 31 January 2016 ("2QFY2016"), mainly because of higher demand for all services.

Other income was lower by RM1.1 million, mainly due to absence of an exchange gain and reversal of sundry payables in the current quarter.

Raw materials and consumables used and changes in work-in-progress increased by RM1.3 million or 17%, from RM7.3 million to RM8.5 million, because of higher sales from electronic manufacturing services.

Employee benefits expense was higher by RM1.6 million or 7%, mainly due to higher wage rates, and staff compensation resulting from the translation of Renminbi following the weakening of Malaysian Ringgit ("MYR").

Depreciation was lower by RM1.0 million or 7%, as certain machinery and test equipment were fully depreciated during the period under review.

Other expenses increased by RM1.5 million or 9%, from RM16.1 million to RM17.6 million, mainly due to an exchange loss of RM1.2 million resulting from depreciation of United States Dollars ("USD") against MYR on USD denominated receivables, and higher repair and maintenance expenses by RM0.3 million to support the increased sales.

Consequently, the Group's profit before tax was higher by RM3.6 million, from RM4.2 million to RM7.8 million in 2QFY2016.

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

The Group's revenue increased by RM9.2 million or 7%, from RM131.3 million in the preceding year's corresponding period to RM140.4 million for the current financial period ended 31 January 2016, as a result of higher demand for all services.

Other income was lower by RM1.6 million or 52%, mainly due to absence of reversal of sundry payables of RM1.3 million.

Raw materials and consumables used and changes in work-in-progress were higher by RM1.1 million, because of higher sales from electronic manufacturing services.

Consequently, the Group's profit before tax improved by RM7.5 million or 74%, from RM10.1 million to RM17.6 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 RM7.8 million for the second quarter ended 31 January 2016, compared to RM9.8 million in the preceding quarter ended 31 October 2015 ("1QFY2016").

The decrease in profit before tax by RM2.0 million was primarily due to (i) an exchange loss of RM1.2 million in 2QFY2016, resulting from depreciation of USD against MYR on USD denominated receivables, as compared to an exchange gain of RM2.1 million in 1QFY2016, offset by (ii) a decrease in depreciation by RM0.8 million as certain machinery and test equipment were fully depreciated and (iii) a fair value gain on investment securities held for trading of RM0.2 million as compared to a fair value loss of RM0.1 million in 1QFY2016.

17. Prospects

World-wide semiconductor revenue was reported at USD333.7 billion in 2015, representing a decrease of 1.9% from USD340.3 billion in 2014. This was the result of softer demand for key electronic equipment, including smartphones and personal computers, high inventory levels and the continued impact of the strong US dollar in key markets outside of the United States.

According to International Monetary Fund report in January 2016, the global growth forecast was revised downwards by 0.2% to 3.4% in 2016. The gradual slowdown and rebalancing of the China economy, continued declines in oil prices, falling commodity prices and the fears of currency wars weigh on the growth prospects.

Given this economic backdrop, the Group will remain cautious on its capital spending, whilst continuing its focus on developing its core test capability, especially in the automotive market.

18. Profit forecast/profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/01/2016 RM'000	Preceding year corresponding quarter 31/01/2015 RM'000	Current year to date 31/01/2016 RM'000	Preceding year corresponding quarter 31/01/2015 RM'000
Current income tax				
- Malaysian income tax	810	728	2,583	1,717
- Foreign tax	-	356	-	908
	810	1,084	2,583	2,625

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

20. Status of uncompleted corporate proposals

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

21. Group borrowings and debt securities

	<u>As At</u> <u>31/01/2016</u>	<u>As At</u> <u>31/07/2015</u>
	RM'000	RM'000
(a) Obligations under finance leases - secured	3,692	657
Term loans - unsecured	54,134	72,701
	<u>57,826</u>	<u>73,358</u>
(b) Repayable within 12 months	33,563	40,375
Repayable after 12 months	24,263	32,983
	<u>57,826</u>	<u>73,358</u>
(c) Loans denominated in:		
USD	-	2,693
MYR	57,826	70,665
	<u>57,826</u>	<u>73,358</u>

22. Changes in material litigation

Further to the announcement made on 24 November 2015, there were no changes in material litigation as at the date of this announcement.

23. Dividend

There was no dividend declared for the quarter under review.

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 Company of RM15,065,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

25. Realised and unrealised profits

	As at end of current quarter 31/01/2016	As at preceding financial year end 31/07/2015
	RM'000	RM'000
- Realised	244,879	234,984
- Unrealised	1,253	692
Total retained profits of the Company and its subsidiaries	246,132	235,676
Consolidation adjustments	(34,174)	(36,743)
Total group retained profits as per consolidated accounts	211,958	198,933

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 10 March 2016