

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2013**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 October 2013.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 OCTOBER 2013**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/10/2013) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2012) RM'000	CURRENT YEAR-TO-DATE (31/10/2013) RM'000	PRECEDING YEAR CORRESPONDING YEAR-TO-DATE (31/10/2012) RM'000
Revenue	64,786	64,236	64,786	64,236
Other items of income				
Interest income	861	737	861	737
Dividend income	57	42	57	42
Other income	1,430	1,136	1,430	1,136
Items of expense				
Raw materials and consumables used	(12,843)	(14,422)	(12,843)	(14,422)
Changes in work-in-progress and finished goods	943	(357)	943	(357)
Employee benefits expense	(21,158)	(18,185)	(21,158)	(18,185)
Depreciation of property, plant and equipment	(12,798)	(14,282)	(12,798)	(14,282)
Finance costs	(691)	(653)	(691)	(653)
Other expenses	(15,356)	(14,351)	(15,356)	(14,351)
Profit before tax	5,231	3,901	5,231	3,901
Income tax expense	(1,672)	(1,796)	(1,672)	(1,796)
Profit net of tax	3,559	2,105	3,559	2,105
Other comprehensive income:				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Foreign currency translation	899	-	899	-
Other comprehensive income for the period, net of tax	899	-	899	-
Total comprehensive income for the period	4,458	2,105	4,458	2,105
Profit attributable to:				
Owners of the parent	2,754	1,283	2,754	1,283
Non-controlling interests	805	822	805	822
	3,559	2,105	3,559	2,105
Total comprehensive income attributable to:				
Owners of the parent	3,653	1,283	3,653	1,283
Non-controlling interests	805	822	805	822
	4,458	2,105	4,458	2,105
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	6.4	3.0	6.4	3.0

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 31 OCTOBER 2013**

	<u>AS AT END OF CURRENT QUARTER 31/10/2013</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2013</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	132,039	135,662
Deferred tax assets	5,114	5,114
	<u>137,153</u>	<u>140,776</u>
Current assets		
Inventories	15,143	16,035
Trade and other receivables	61,360	59,542
Prepayments	2,057	1,454
Tax recoverable	56	618
Investment securities	7,471	8,029
Cash and bank balances	141,661	139,227
	<u>227,748</u>	<u>224,905</u>
Total assets	<u>364,901</u>	<u>365,681</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Other reserves	8,675	7,776
Retained earnings	187,391	184,637
	<u>239,081</u>	<u>235,428</u>
Non-controlling interests	31,441	30,636
Total equity	<u>270,522</u>	<u>266,064</u>
Non-current liabilities		
Obligations under finance leases	1,892	2,351
Long term loans	29,529	35,209
Deferred tax liabilities	2,762	2,762
	<u>34,183</u>	<u>40,322</u>
Current liabilities		
Trade and other payables	32,063	28,888
Obligations under finance leases	1,909	1,942
Term loans	25,244	28,012
Income tax payable	980	453
	<u>60,196</u>	<u>59,295</u>
Total liabilities	<u>94,379</u>	<u>99,617</u>
Total equity and liabilities	<u>364,901</u>	<u>365,681</u>
Net assets per share attributable to owners of the parent (RM)	<u>5.56</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 OCTOBER 2013**

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	-	-	899	-	2,754	3,653	805	4,458
At 31 October 2013	43,015	663	5,578	2,434	187,391	239,081	31,441	270,522

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	-	-	-	-	1,283	1,283	822	2,105
At 31 October 2012	43,015	663	2,559	905	184,170	231,312	26,586	257,898

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 31 OCTOBER 2013

	Current year-to-date 31/10/2013	Preceding year corresponding year-to-date 31/10/2012
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	5,231	3,901
Adjustments for:		
Depreciation of property, plant and equipment	12,798	14,282
Property, plant and equipment written off	1	-
Gain on disposal of property, plant and equipment	-	(20)
Gain on disposal of investment securities held for trading	(327)	-
Net fair value loss on investment securities held for trading	24	52
Unrealised exchange loss/(gain)	42	(380)
Inventories written down	-	160
Reversal of impairment loss on trade receivables	(27)	-
Dividend income	(57)	(42)
Interest income	(861)	(737)
Finance costs	691	653
Operating cash flows before working capital changes	17,515	17,869
Decrease in inventories	892	1,891
(Increase)/decrease in prepayment, trade and other receivables	(2,394)	3,896
Increase/(decrease)/increase in trade and other payables	3,200	(17,647)
Cash generated from operations	19,213	6,009
Income taxes paid	(585)	(425)
Interest paid	(691)	(653)
Interest received	861	737
Net cash generated from operating activities	18,798	5,668
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	861	-
Dividend income	57	42
Purchase of property, plant and equipment	(7,907)	(5,430)
Proceeds from disposal of property, plant and equipment	-	23
Net cash used in investing activities	(6,989)	(5,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(492)	(1,604)
Repayment of term loans	(8,773)	(7,477)
Proceeds from term loans	-	736
Net cash flows used in financing activities	(9,265)	(8,345)
Net increase/(decrease) in cash and cash equivalents	2,544	(8,042)
Effects of exchange rate changes	(110)	-
Cash and cash equivalents at beginning of year	139,227	113,756
Cash and cash equivalents at end of the period	141,661	105,714

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

There were no dividends paid during the current financial year-to-date.

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 property, plant and equipment amounted to RM8,165,000.

12. Significant related party transactions

	<u>As at</u> <u>31/10/2013</u> RM'000	<u>As at</u> <u>31/10/2012</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	1,301	1,513
Interest on loan from Sunright Limited	29	29
Sales to:		
- KES Systems & Service (1993) Pte Ltd	68	26
- KES Systems, Inc.	-	21
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	1,255	14
- KEST Systems & Service Ltd	283	-
- Kestronics (M) Sdn Bhd	-	1
- KES Systems, Inc.	-	82

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 RM1,028,000 as at 31 October 2013.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/10/2013	31/10/2012	31/10/2013	31/10/2012
	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	24	52	24	52
Plant and equipment written off	1	-	1	-
Inventories written down	-	160	-	160
And crediting:				
Gain on disposal of property, plant and equipment	-	20	-	20
Gain on disposal of investment securities held for trading	327	-	327	-
Net foreign exchange gain	452	539	452	539

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

15. Detailed analysis of Group performance

The Group's revenue increased by RM0.6 million, from RM64.2 million in the preceding year's first quarter to RM64.8 million for the first quarter ended 31 October 2013, because of higher demand from burn-in and testing services.

Other income was higher by RM0.3 million or 26%, primarily due to the gain on disposal of investment securities held for trading of RM0.3 million.

Raw materials and consumables used and changes in work-in-progress were lower by RM2.9 million or 19%, from RM14.8 million to RM11.9 million, as a result of lower sales from electronic manufacturing services.

Employee benefits expense increased from RM18.2 million to RM21.2 million or 16%, mainly due to more hires to support increased volume, and adjustments to wage rates in response to the minimum wage rates in Malaysia that was effective in January 2013, along with further increases to the minimum wage rates in China.

Depreciation decreased by 10%, from RM14.3 million to RM12.8 million, as certain machinery and test equipment were fully depreciated.

Other expenses were higher by RM1.0 million or 7%, from RM14.4 million to RM15.4 million, mainly due to higher utilities by RM0.4 million resulting from increased sales and higher repair and maintenance expenses by RM0.2 million.

Consequently, the Group's profit before tax increased by RM1.3 million or 34%, from RM3.9 million in the preceding year's corresponding quarter to RM5.2 million in the reporting quarter 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 RM5.2 million for the first quarter ended 31 October 2013, compared to RM5.0 million in the preceding quarter ended 31 July 2013.

17. Prospects

World-wide semiconductor revenue is projected to grow in 2013 by 5.2% to US\$315 billion, compared to the previous forecast of 3.7% to US\$311 billion.

However, the global environment is still uncertain. Although US economy is gradually improving, unemployment remains high. The Eurozone has reported an end to its recession, yet its growth has been revised to a slower pace. China's growth potential is dependent on its recently concluded reform package. In Asia, wage costs continue to rise, particularly in Malaysia and China where the Group operates in.

In light of the current economic climate, the Group will continuously focus on driving for productivity and costs efficiency.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/10/2013 RM'000	Preceding year corresponding quarter 31/10/2012 RM'000	Current year to date 31/10/2013 RM'000	Preceding year corresponding quarter 31/10/2012 RM'000
Current income tax				
- Malaysian income tax	1,010	1,056	1,010	1,056
- Foreign tax	662	771	662	771
- Over provision in prior years	-	(31)	-	(31)
	<u>1,672</u>	<u>1,796</u>	<u>1,672</u>	<u>1,796</u>

The effective tax rate was higher than the statutory tax rate, mainly due to higher foreign tax.

20. Status of uncompleted corporate proposals

The Company has proposed to seek the approval of the shareholders for the Proposed Renewal of Existing Shareholders' Mandate for Recurrent Related Party Transactions of a revenue or trading nature and the Proposed New Shareholders' Mandate for Additional Recurrent Related Party Transaction of a revenue or trading nature (collectively "Proposed Renewal") at the Extraordinary General Meeting to be convened immediately following the conclusion of the Company's Annual General Meeting to be held on 9 January 2014. A circular which set out the details of the Proposed Renewal had been issued to shareholders of the Company on 29 October 2013.

21. Group borrowings and debt securities

	<u>As At</u> <u>31/10/2013</u> RM'000	<u>As At</u> <u>31/07/2013</u> RM'000
(a) Obligations under finance leases - secured	3,801	4,293
Term loans – secured	53,399	61,847
Other loan – unsecured	1,374	1,374
	<u>58,574</u>	<u>67,514</u>
(b) Repayable within 12 months	27,153	29,954
Repayable after 12 months	31,421	37,560
	<u>58,574</u>	<u>67,514</u>
(c) Loans denominated in:		
United States Dollar	32,693	28,966
Ringgit Malaysia	25,881	38,548
	<u>58,574</u>	<u>67,514</u>

22. Changes in material litigation

Other than the announcement made on 18 October 2013 on the update on Demand for Arbitration by Datamatic, Ltd as Claimant against KESP Sdn Bhd as the Respondent, there were no pending material litigation against the Group as at the date of this announcement.

23. Dividend

No interim dividend has been declared for the financial quarter ended 31 October 2013.

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 RM2,754,000 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 31/10/2013	As at preceding financial year end 31/07/2013
	RM'000	RM'000
- Realised	213,838	210,014
- Unrealised	5,257	6,182
Total retained profits of the Company and its subsidiaries	219,095	216,196
Consolidation adjustments	(31,704)	(31,559)
Total group retained profits as per consolidated accounts	187,391	184,637

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 25 November 2013