

KESM INDUSTRIES BERHAD**(Incorporated in Malaysia)**

Company No : 13022-A

**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2012**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 October 2012.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 OCTOBER 2012**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/10/2012) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2011) RM'000	CURRENT YEAR TO DATE (31/10/2012) RM'000	PRECEDING YEAR CORRESPONDING YEAR TO DATE (31/10/2011) RM'000
Revenue	64,236	50,357	64,236	50,357
Other items of income				
Interest income	737	599	737	599
Dividend income	42	33	42	33
Other income	1,136	5,130	1,136	5,130
Items of expense				
Raw materials and consumables used	(14,422)	(10,725)	(14,422)	(10,725)
Changes in work-in-progress and finished goods	(357)	(117)	(357)	(117)
Employee benefits expense	(18,185)	(14,179)	(18,185)	(14,179)
Depreciation of property, plant and equipment	(14,282)	(14,257)	(14,282)	(14,257)
Finance costs	(653)	(934)	(653)	(934)
Other expenses	(14,351)	(12,512)	(14,351)	(12,512)
Profit before tax	3,901	3,395	3,901	3,395
Income tax expense	(1,796)	(1,179)	(1,796)	(1,179)
Profit net of tax	2,105	2,216	2,105	2,216
Other comprehensive income:				
Foreign currency translation	-	1,833	-	1,833
Other comprehensive income for the period, net of tax	-	1,833	-	1,833
Total comprehensive income for the period	2,105	4,049	2,105	4,049
Profit attributable to:				
Owners of the parent	1,283	1,825	1,283	1,825
Non-controlling interests	822	391	822	391
	2,105	2,216	2,105	2,216
Total comprehensive income attributable to:				
Owners of the parent	1,283	3,658	1,283	3,658
Non-controlling interests	822	391	822	391
	2,105	4,049	2,105	4,049
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	3.0	4.2	3.0	4.2

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2012 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 2012**

	AS AT END OF CURRENT QUARTER 31/10/2012	AS AT PRECEDING FINANCIAL YEAR END 31/07/2012 (Restated ⁺)	AS AT 01/08/2011 (Restated ⁺)
	RM'000	RM'000	RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	158,109	150,273	162,768
Deferred tax assets	5,304	5,304	5,320
	<u>163,413</u>	<u>155,577</u>	<u>168,088</u>
Current assets			
Inventories	18,523	20,574	22,999
Trade and other receivables	61,215	65,097	67,128
Prepayments	1,758	1,772	1,203
Tax recoverable	343	1,064	1,106
Investment securities	10,579	10,631	11,315
Cash and bank balances	105,714	113,756	100,526
	<u>198,132</u>	<u>212,894</u>	<u>204,277</u>
Assets held for sale	393	421	-
	<u>198,525</u>	<u>213,315</u>	<u>204,277</u>
Total assets	<u><u>361,938</u></u>	<u><u>368,892</u></u>	<u><u>372,365</u></u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital	43,015	43,015	43,015
Other reserves	4,127	4,127	1,297
Retained earnings	184,170	182,887	180,016
	<u>231,312</u>	<u>230,029</u>	<u>224,328</u>
Non-controlling interests	26,586	25,764	22,542
Total equity	<u>257,898</u>	<u>255,793</u>	<u>246,870</u>
Non-current liabilities			
Obligations under finance leases	1,355	605	1,634
Long term loans	28,264	34,663	56,679
Deferred tax liabilities	2,714	2,714	3,296
	<u>32,333</u>	<u>37,982</u>	<u>61,609</u>
Current liabilities			
Trade and other payables	45,091	48,159	34,911
Obligations under finance leases	1,458	1,594	2,165
Term loans	24,508	25,364	26,364
Income tax payable	650	-	446
	<u>71,707</u>	<u>75,117</u>	<u>63,886</u>
Total liabilities	<u>104,040</u>	<u>113,099</u>	<u>125,495</u>
Total equity and liabilities	<u><u>361,938</u></u>	<u><u>368,892</u></u>	<u><u>372,365</u></u>
Net assets per share attributable to owners of the parent (RM)	<u>5.38</u>	<u>5.35</u>	<u>5.22</u>

⁺ Upon first-time adoption of MFRS - See Note 2 on significant accounting policies on page 5.

The condensed consolidated statement of financial position should be read in conjunction with the audited financial statements for the financial year ended 31 July 2012 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 2012

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

FY2012	< ----- Attributable to owners of the parent ----- >						Non-controlling interests	Total equity	
	Share capital	< ----- Non-distributable ----- >			Distributable				
		Share premium	Foreign currency translation reserve	Asset revaluation 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 2011	43,015	663	(271)	12,915	905	167,101	224,328	22,542	246,870
Effects of transition to MFRS				(12,915)		12,915			
At 1 August 2011, as restated	43,015	663	(271)	-	905	180,016	224,328	22,542	246,870
Total comprehensive income	-	-	1,833	-	-	1,825	3,658	391	4,049
At 31 October 2011	43,015	663	1,562	-	905	181,841	227,986	22,933	250,919

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 2012 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 2012

	Current year to date 31/10/2012	Preceding year corresponding year to date 31/10/2011
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	3,901	3,395
Adjustments for:		
Depreciation of property, plant and equipment	14,282	14,257
Gain on disposal of property, plant and equipment	(20)	(4)
Loss on disposal of investment securities held for trading	-	15
Net fair value gain on investment securities held for trading	52	618
Unrealised exchange (gain)/loss	(380)	9
Inventories written down	160	-
Dividend income	(42)	(33)
Interest income	(737)	(599)
Finance costs	653	934
Operating cash flows before working capital changes	17,869	18,592
Decrease in inventories	1,891	1,727
Decrease in prepayment, trade and other receivables	3,896	9,781
(Decrease)/increase in trade and other payables	(17,647)	1,421
Cash generated from operations	6,009	31,521
Income taxes paid	(425)	(1,927)
Interest paid	(653)	(934)
Interest received	737	599
Net cash generated from operating activities	5,668	29,259
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	-	1,148
Dividend income	42	33
Purchase of property, plant and equipment	(5,430)	(10,089)
Proceeds from disposal of property, plant and equipment	23	372
Net cash used in investing activities	(5,365)	(8,536)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,604)	(556)
Repayment of term loans	(7,477)	(9,252)
Proceeds from term loans	736	-
Net cash flows used in financing activities	(8,345)	(9,808)
Net increase in cash and cash equivalents	(8,042)	10,915
Effects of exchange rate changes	-	(1,235)
Cash and cash equivalents at beginning of year	113,756	100,526
Cash and cash equivalents at end of the period	105,714	110,206

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2012 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 2012. 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 2012.

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 2012, except for the adoption of Malaysian Financial Reporting Standards (MFRSs), Amendments to MFRSs and IC Interpretations effective for financial year beginning 1 August 2012.

The application of the new/revised MFRSs, Amendments to MFRSs and IC Interpretations did not result in any material financial impact to the Group, except for below changes.

First time adoption of MFRS

These condensed consolidation interim financial reports are the Group’s first MFRS condensed consolidated interim financial reports for part of the period covered by the Group’s first MFRS annual financial statements for the year ending 31 July 2013. *MFRS 1: First time adoption of Malaysia Financial Reporting Standards (“MFRS 1”)* has been applied.

In preparing its opening MFRS Statement of Financial Position as at 1 August 2011 (which is also the date of transition), the Group has adjusted the amounts previously reported in financial statements prepared in accordance with FRS. An explanation of how the transition from FRS to MFRS has affected the Company’s financial position is as set out below. These notes include reconciliations of equity for the comparative periods and of equity at the date of transition reported under FRS to those reported for those periods and at the date of transition under MFRS. The transition from FRS to MFRS has not had a material impact on the consolidated statement of comprehensive income and consolidated statement of cash flows.

Measurement of leasehold land and buildings at deemed cost

The Group’s and the Company’s leasehold land and buildings were revalued based on a valuation conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers in April 2009. The valuers used the comparison method of valuation to determine the market value of the leasehold land and buildings. The surplus arising from this revaluation had been credited to revaluation reserve.

Upon transition to MFRS, the Group elected to measure its leasehold land and buildings using the cost model under *MFRS 116 Property, Plant and Equipment*. At the date of transition to MFRS, the Group elected to regard the revalued amount as deemed cost as these amounts were broadly comparable to fair value at that date. Consequently, the asset revaluation reserve of RM12,915,000 was transferred to retained earnings on the date of transition to MFRS.

2. Significant accounting policies (cont'd)

The reconciliations of equity for comparative periods and of equity at the date of transition reported under FRS to those reported for those periods at the date of transition under MFRS are provided below:

i. Reconciliation of equity as at 1 August 2011

	FRS as at 1 August 2011 RM'000	Effects of adopting MFRS RM'000	MFRS as at 1 August 2011 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	167,101	12,915	180,016
			<hr/>

ii. Reconciliation of equity as at 31 October 2011

	FRS as at 31 October 2011 RM'000	Effects of adopting MFRS RM'000	MFRS as at 31 October 2011 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	168,926	12,915	181,841
			<hr/>

iii. Reconciliation of equity as at 31 July 2012

	FRS as at 31 July 2012 RM'000	Effects of adopting MFRS RM'000	MFRS as at 31 July 2012 RM'000
Asset revaluation reserve	12,915	(12,915)	-
Retained earnings	169,972	12,915	182,887
			<hr/>

Segmental reporting

The Group has changed its basis of segmentation from two segments to one segment. From current quarter onwards, the only operating segment of the Group is burn-in, testing and electronic manufacturing services which is evaluated regularly by management in deciding how to allocate resources and in assessing performance of the Group.

In the annual report for the financial year ended 31 July 2012, investment holding segment is disclosed in the segment information which comprises Group-level corporate services, treasury functions and investment in marketable securities, and consolidation adjustments which are not directly attributable to the burn-in, testing and electronic manufacturing services segment. The investment holding segment is not significant to be separately reported and evaluated by management.

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 2012 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 plant and equipment amounted to RM22,093,000 and disposed plant and equipment of net book value amounted to RM3,000.

12. Significant related party transactions

	<u>As at</u> <u>31/10/2012</u> RM'000	<u>As at</u> <u>31/10/2011</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	1,513	1,222
Interest on loan from Sunright Limited	29	29
Sales to:		
- KES Systems & Service (1993) Pte Ltd	26	372
- KES Systems, Inc.	21	-
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	14	521
- Kestronics (M) Sdn Bhd	1	2,231
- 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 RM8,440,000 as at 31 October 2012.

14. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding period
	31/10/2012	31/10/2011	31/10/2012	31/10/2011
	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	52	618	52	618
Inventories written down	160	-	160	-
Loss on disposal on investment securities held for trading	-	15	-	15
And crediting:				
Gain on disposal of property, plant and equipment	20	4	20	4
Net foreign exchange gain	539	1,544	539	1,544

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 RM13.9 million or 28%, from RM50.4 million in the preceding year's first quarter to RM64.2 million for the first quarter ended 31 October 2012, because of higher demand from burn-in, testing and electronic manufacturing services.

Other income was lower by RM4.0 million, primarily due to (i) absence of a government incentive of RM2.7 million on technological upgrade in the reporting quarter under review, (ii) lower exchange gain by RM1.0 million, arising from depreciation of US Dollars against Ringgit on US Dollars denominated receivables, and (iii) lower reversal of sundry payables by RM0.3 million.

Raw materials and consumables used and changes in work-in-progress were higher by RM3.9 million or 36%, from RM10.8 million to RM14.8 million, in support of higher sales from electronic manufacturing services.

Employee benefits expense increased from RM14.2 million to RM18.2 million as a result of increased headcounts to support higher sales, and adjustments to wage rates in response to further increases to the minimum wage rates in China.

Finance costs reduced by RM0.3 million or 30% following repayments of loans and borrowings.

Other expenses increased by RM1.8 million or 15%, from RM12.5 million to RM14.4 million, largely due to higher repair and maintenance expenses by RM1.2 million as a result of higher machine usage and increased utility usage by RM0.4 million.

In effect, the Group's profit before tax increased by RM0.5 million or 15%, from RM3.4 million in the preceding year's corresponding quarter to RM3.9 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 RM3.9 million for the first quarter ended 31 October 2012, compared to RM0.5 million in the preceding quarter ended 31 July 2012.

The increase in profit before tax was the result of absence of impairment loss on trade receivables of RM7.0 million, offset by lower profits by RM3.6 million due to lower sales.

17. Prospects

The global semiconductor industry has revised its year-on-year growth projection from 3%, to a contraction of 0.1%, according to a global research company. This projection was made following the poor results in the second quarter and weak third-quarter expectations.

Faced with the continued Eurozone crisis, slower growth in China, and the potential federal tax and budget fiscal cliff in the United States, the Group's business is likely to soften further. The Group will continue to deploy costs controls whilst pursuing higher productivity.

18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/10/2012 RM'000	Preceding year corresponding quarter 31/10/2011 RM'000	Current year to date 31/10/2012 RM'000	Preceding year corresponding quarter 31/10/2011 RM'000
Current income tax				
- Malaysian income tax	1,056	559	1,056	559
- Foreign tax	771	1,455	771	1,455
- Over provision in prior years	(31)	-	(31)	-
	<u>1,796</u>	<u>2,014</u>	<u>1,796</u>	<u>2,014</u>
Deferred tax				
- Relating to origination and reversal of temporary differences	-	(835)	-	(835)
	<u>1,796</u>	<u>1,179</u>	<u>1,796</u>	<u>1,179</u>

The effective tax rate was higher than the statutory tax rate, mainly due to certain non-deductible expenses.

20. Status of uncompleted corporate proposals

The Company has proposed to seek the approval of the shareholders for the Proposed Amendments to the Articles of Association of the Company in line with the amendments to the Bursa Malaysia Securities Berhad Main Market Listing Requirements at the Company's Annual General Meeting ("AGM") to be held on 16 January 2013 and Proposed Renewal of Shareholders' Mandate for Recurrent Related Party Transactions of a revenue or trading nature ("Proposed Renewal") at the Extraordinary General Meeting to be convened immediately following the conclusion of the Company's AGM. A circular which set out the details of the Proposed Renewal had been issued to shareholders of the Company on 29 October 2012.

21. Group borrowings and debt securities

	<u>As At</u> <u>31/10/2012</u>	<u>As At</u> <u>31/07/2012</u>
	RM'000	RM'000
(a) Obligations under finance leases - secured	2,813	2,199
Term loans – secured	51,195	57,763
Term loans – unsecured	203	890
Other loan – unsecured	1,374	1,374
	<u>55,585</u>	<u>62,226</u>
(b) Repayable within 12 months	25,966	26,958
Repayable after 12 months	29,619	35,268
	<u>55,585</u>	<u>62,226</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	38,067	42,535
Ringgit Malaysia (“RM”)	17,518	19,691
	<u>55,585</u>	<u>62,226</u>

22. Changes in material litigation

There was no material litigation as at the date of this announcement.

23. Dividend

No interim dividend has been declared for the financial quarter ended 31 October 2012.

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 RM1,283,000 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 31/10/2012	As at preceding financial year end 31/07/2012 (Restated)
	RM'000	RM'000
- Realised	205,747	204,191
- Unrealised	7,219	6,555
Total retained profits of the Company and its subsidiaries	212,966	210,746
Consolidation adjustments	(28,796)	(27,859)
Total group retained profits as per consolidated accounts	184,170	182,887

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 22 November 2012