

# KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

## UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER ENDED 31 OCTOBER 2011

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 October 2011.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE QUARTER ENDED 31 OCTOBER 2011

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/10/2011) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2010) RM'000	CURRENT YEAR TO DATE (31/10/2011) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2010) RM'000
Revenue	50,357	63,581	50,357	63,581
Other items of income	5,762	1,627	5,762	1,627
Items of expense	(52,724)	(56,583)	(52,724)	(56,583)
Profit before tax	3,395	8,625	3,395	8,625
Income tax expense	(1,179)	(2,631)	(1,179)	(2,631)
Profit net of tax	2,216	5,994	2,216	5,994
Other comprehensive income:				
Foreign currency translation reserve	1,833	(39)	1,833	(39)
Other comprehensive income for the period, net of tax	1,833	(39)	1,833	(39)
Total comprehensive income for the period	4,049	5,955	4,049	5,955
Profit attributable to:				
Owners of the parent	1,825	4,472	1,825	4,472
Minority interests	391	1,522	391	1,522
	2,216	5,994	2,216	5,994
Total comprehensive income attributable to:				
Owners of the parent	3,658	4,433	3,658	4,433
Minority interests	391	1,522	391	1,522
	4,049	5,955	4,049	5,955
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	4.2	10.4	4.2	10.4
- Diluted (Note A)	-	10.4	-	10.4

Note A: As at the reporting date, there was no potential ordinary share as the Company's employees share option scheme had expired on 4 December 2010.

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2011 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 2011

	<u>AS AT END OF CURRENT QUARTER 31/10/2011</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2011</u>
	RM'000	RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	161,769	162,768
Deferred tax assets	5,706	5,320
	<u>167,475</u>	<u>168,088</u>
<b>Current assets</b>		
Inventories	21,272	22,999
Trade and other receivables	57,170	67,128
Prepayments	1,380	1,203
Investment securities	9,534	11,315
Tax recoverable	1,062	1,106
Cash and bank balances	110,206	100,526
	<u>200,624</u>	<u>204,277</u>
<b>Total assets</b>	<u>368,099</u>	<u>372,365</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the parent</b>		
Share capital	43,015	43,015
Other reserves	16,045	14,212
Retained earnings	168,926	167,101
	<u>227,986</u>	<u>224,328</u>
Minority interests	22,933	22,542
<b>Total equity</b>	<u>250,919</u>	<u>246,870</u>
<b>Non-current liabilities</b>		
Obligations under finance leases	1,179	1,634
Long term loans	51,316	56,679
Deferred tax liabilities	2,866	3,296
	<u>55,361</u>	<u>61,609</u>
<b>Current liabilities</b>		
Trade and other payables	35,031	34,911
Obligations under finance leases	2,064	2,165
Term loans	24,263	26,364
Income tax payable	461	446
	<u>61,819</u>	<u>63,886</u>
<b>Total liabilities</b>	<u>117,180</u>	<u>125,495</u>
<b>Total equity and liabilities</b>	<u>368,099</u>	<u>372,365</u>
Net assets per share attributable to owners of the parent (sen)	<u>530.0</u>	<u>521.5</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 2011 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 2011**

FY2012	< ----- Attributable to owners of the parent ----- >							Minority interests	Total equity
	Share capital	< ----- Non-distributable ----- >				Distributable	Total		
		Share premium	Foreign currency translation reserve	Asset revaluation reserve	Statutory reserve fund	Retained earnings			
	RM'000	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
Total comprehensive income	-	-	1,833	-	-	1,825	3,658	391	4,049
Balance at 31 October 2011	43,015	663	1,562	12,915	905	168,926	227,986	22,933	250,919

FY2011	< ----- Attributable to owners of the parent ----- >							Minority interests	Total equity
	Share capital	< ----- Non-distributable ----- >				Distributable	Total		
		Share premium	Foreign currency translation reserve	Asset revaluation reserve	Retained earnings				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
At 1 August 2010	43,015	663	905	12,915	153,241	210,739	18,245	228,984	
Effects of adopting FRS 139	-	-	-	-	3,673	3,673	-	3,673	
At 1 August 2010, as restated	43,015	663	905	12,915	156,914	214,412	18,245	232,657	
Total comprehensive income	-	-	(39)	-	4,472	4,433	1,522	5,955	
Balance at 31 October 2010	43,015	663	866	12,915	161,386	218,845	19,767	238,612	

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 2011 and the accompanying explanatory notes attached to the interim financial statements.

**KESM INDUSTRIES BERHAD**  
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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE QUARTER ENDED 31 OCTOBER 2011**

	Current year to date ended 31/10/2011	Preceding corresponding year to date ended 31/10/2010
	RM'000	RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	3,395	8,625
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	14,257	11,581
Net fair value loss/(gain) on investment securities held for trading	618	(1,248)
Other non-cash items	322	940
Operating cash flows before working capital changes	18,592	19,898
Decrease/(increase) in current assets	11,508	(7,387)
Increase in current liabilities	1,421	26,429
Income taxes paid	(1,927)	(921)
Interest paid	(934)	(486)
Interest received	599	247
Net cash generated from operating activities	29,259	37,780
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of investment securities	1,148	-
Dividend income	33	56
Purchase of property, plant and equipment	(10,089)	(47,918)
Proceeds from disposal of property, plant and equipment	372	3
Net cash used in investing activities	(8,536)	(47,859)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of obligations under finance leases	(556)	(560)
Repayment of term loans	(9,252)	(3,700)
Proceeds from term loans	-	33,581
Net cash flows from/(used in) financing activities	(9,808)	29,321
Net increase/(decrease) in cash and cash equivalents	10,915	19,242
Effects of exchange rate changes	(1,235)	176
Cash and cash equivalents at beginning of year	100,526	68,585
Cash and cash equivalents at end of the period	110,206	88,003

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2011 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 Financial Reporting Standards ("FRS") 134: "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Bursa Malaysia Securities Berhad Main Market Listing Requirements. The interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 July 2011. 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 2011.

### 2. Significant accounting policies

The significant accounting policies and methods of computation adopted by the Group in this interim financial statements are consistent with those of the audited financial statements for the year ended 31 July 2011, except for the adoption of new/revised Financial Reporting Standards (FRSs), Amendments to FRSs and IC Interpretations effective for financial year beginning 1 August 2011.

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

#### Amendments to FRS 7: Improving Disclosure about Financial Instruments

The *Improving Disclosures about Financial Instruments* reinforces existing principles for disclosures about liquidity risk. Also, the amendments require enhanced disclosures about fair value measurements in which a three-level fair value hierarchy is introduced.

The Group is required to classify fair value measurements using this hierarchy which is based on the inputs used in determining the measurement.

### 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 2011 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 period under review.

**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. Issuances, cancellations, repurchases, resale and repayments of debt and equity securities**

There were no issuances, cancellations, repurchases, resale 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. Segmental reporting**

Segmental revenue and results for the current financial year to date were as follows:-

	Burn-in, testing and electronic manufacturing services		Investment holding		Total	
	31/10/2011 RM'000	31/10/2010 RM'000	31/10/2011 RM'000	31/10/2010 RM'000	31/10/2011 RM'000	31/10/2010 RM'000
<b>Revenue/operating income</b>						
Sales to external customers	50,357	63,581	-	-	50,357	63,581
Dividend income	-	-	33	56	33	56
	50,357	63,581	33	56	50,390	63,637
<b>Results</b>						
Segment profit/(loss)	4,330	7,560	(600)	1,304	3,730	8,864
Interest income					599	247
Finance costs					(934)	(486)
Profit before tax					3,395	8,625
Income tax expense					(1,179)	(2,631)
Profit net of tax					2,216	5,994

**10. Valuations of property, plant and equipment**

The property, plant and equipment were stated at cost or valuation less accumulated depreciation and any accumulated impairment losses. There was no revaluation of property, plant and equipment for the current quarter and financial year to date.

#### 11. Material events not reflected in the financial statements

There were no material subsequent events to be disclosed as at the date of this report.

#### 12. Changes in the composition of the Group

There was no change in the composition of the Group for the financial year to date.

#### 13. Contingent liabilities

There were no material contingent liabilities as at the date of this report.

#### 14. Significant related party disclosures

	<u>As at</u> 31/10/2011 <u>RM'000</u>	<u>As at</u> 31/10/2010 <u>RM'000</u>
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries:		
Management fees charged by Sunright Limited	1,222	1,185
Interest on loan from Sunright Limited	29	29
Sales to:		
- KES Systems & Service (1993) Pte Ltd	372	29
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	521	4,836
- Kestronics (M) Sdn Bhd	2,231	759
- KES Systems, Inc.	-	3,411

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.

#### 15. Review of Performance of the Group

The Group's revenue for the first quarter ended 31 October 2011 decreased by RM13.2 million or 21%, from preceding year's corresponding period of RM63.6 million to RM50.4 million, as a result of lower demand for burn-in, testing and electronic manufacturing services.

Other items of income increased by RM4.1 million, compared to preceding year's corresponding period. The increase was largely due to (i) an exchange gain of RM1.5 million, arising mainly from appreciation of US Dollars against Ringgit on US Dollars denominated receivables, and (ii) RM2.7 million grant, an incentive given by the China government for technology upgrade.

Operating expenses decreased by RM3.9 million or 7%, from preceding year's corresponding period of RM56.6 million to RM52.7 million. This was primarily attributed to lower labour, material and overhead costs due to lower sales, being offset by higher depreciation as a result of expanded capacity.

In effect, the Group's profit before tax reduced by RM5.2 million or 61%, from RM8.6 million in the preceding year's corresponding quarter, to RM3.4 million for the quarter under review.

## 16. Material change in the profit before taxation compared to the results of the preceding quarter

The Group's profit before tax for the first quarter ended 31 October 2011 were lower by RM0.4 million, from RM3.8 million in the preceding quarter ended 31 July 2011 to RM3.4 million for the first quarter ended 31 October 2011, mainly due to lower sales.

## 17. Prospects

The global semiconductor industry is expected to register a year-on-year negative revenue growth of 0.1% to USD229 billion in 2011.

In light of a weak US economy recovery and the uncertainty of the Eurozone debt bailout plans, the Group's business momentum may slow down further.

The Group will continue its efforts on stringent cost controls and productivity improvements to weather through this challenging and volatile business environment.

## 18. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

## 19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/10/2011	Preceding year corresponding quarter 31/10/2010	Current year to date 31/10/2011	Preceding year corresponding quarter 31/10/2010
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	559	1,890	559	1,890
- Foreign tax	1,455	682	1,455	682
- Under provision in prior years	-	59	-	59
	2,014	2,631	2,014	2,631
Deferred tax				
- Relating to-origination and reversal of temporary differences	(835)	-	(835)	-
	1,179	2,631	1,179	2,631

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

## 20. Sale of unquoted investments and/or properties

There were no sales of unquoted investment or properties in the current quarter and financial year to date.



## 21. Purchase or disposal of quoted securities

The Group made the following disposal of quoted securities in the quarter ended 31 October 2011.

	<u>Individual period</u>	<u>Cumulative period</u>
	Current year quarter 31/10/2011	Current year to date 31/10/2011
	RM'000	RM'000
Total disposal	(1,163)	(1,163)
Loss on disposal	<u>(15)</u>	<u>(15)</u>
	<u>As at 31/10/2011</u>	<u>As at 31/07/2011</u>
	RM'000	RM'000
Quoted shares: - at carrying value	<u>9,534</u>	<u>11,315</u>
- at market value	<u>9,534</u>	<u>11,315</u>

## 22. Status of uncompleted corporate proposals

The company is seeking the approval of the shareholders for the 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 Annual General Meeting to be held on 5 January 2012.

A circular which set out the details of the Proposed Renewal had been issued to shareholders of the Company on 28 October 2011.

## 23. Group borrowings and debt securities

	<u>As At 31/10/2011</u>	<u>As At 31/07/2011</u>
	RM'000	RM'000
(a) Term loans – secured	74,205	81,669
Other loan – unsecured	1,374	1,374
	<u>75,579</u>	<u>83,043</u>
(b) Repayable within 12 months	24,263	26,364
Repayable after 12 months	51,316	56,679
	<u>75,579</u>	<u>83,043</u>
(c) The securities provided on term loans comprised fixed charge on certain assets of the Group.		

Other loan represents unsecured loan obtained from a minority shareholder of a subsidiary company who is also a corporate shareholder of the Company. This loan bears interest at prevailing commercial rates and is not expected to be repaid in the next 12 months.

#### 24. Off balance sheet financial instruments

There were no off balance sheet financial instruments.

#### 25. Changes in material litigation

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

#### 26. Dividend

The Board does not recommend any interim dividend for the financial quarter ended 31 October 2011.

#### 27. 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 RM1,825,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the quarter.

#### 28. Realised and unrealised profits

	As at end of current quarter 31/10/2011	As at preceding financial year end 31/07/2011
	RM'000	RM'000
- Realised	186,801	183,061
- Unrealised	6,016	7,554
Total retained profits of the Company and its subsidiaries	192,817	190,615
Consolidation adjustments	(23,891)	(23,514)
Total group retained profits as per consolidated accounts	168,926	167,101

BY ORDER OF THE BOARD

Leong Oi Wah  
Company Secretary

Petaling Jaya  
Date : 22 November 2011