

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

**SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE FIRST QUARTER ENDED 31 OCTOBER 2006**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/10/2006) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2005) RM'000	CURRENT YEAR TO DATE (31/10/2006) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2005) RM'000
1. Revenue	48,044	33,660	48,044	33,660
2. Profit before tax	5,588	3,956	5,588	3,956
3. Profit after tax and minority interest	3,562	2,796	3,562	2,796
4. Net Profit for the period	4,080	2,901	4,080	2,901
5. Basic earnings per share (sen)	8.3	6.5	8.3	6.5
6. Dividend per share (sen)	-	-	-	-

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
7. Net assets per share (RM)	3.20	3.12

ADDITIONAL INFORMATION

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/10/2006) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2005) RM'000	CURRENT YEAR TO DATE (31/10/2006) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2005) RM'000
1. Profit from operations	6,168	4,825	6,168	4,825
2. Gross interest income	294	338	294	338
3. Gross interest expenses	(580)	(869)	(580)	(869)

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**UNAUDITED FIRST QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31ST OCTOBER 2006**

The Board of Directors announces the following unaudited results of the Group for the financial quarter ended 31st October 2006.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 31 OCTOBER 2006**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/10/2006) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/10/2005) RM'000	CURRENT YEAR TO DATE (31/10/2006) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/10/2005) RM'000
Revenue	48,044	33,660	48,044	33,660
Operating expenses	(42,230)	(29,209)	(42,230)	(29,209)
Other income	354	374	354	374
Profit from operations	6,168	4,825	6,168	4,825
Finance costs	(580)	(869)	(580)	(869)
Profit before tax	5,588	3,956	5,588	3,956
Taxation	(1,508)	(1,055)	(1,508)	(1,055)
Profit after tax	4,080	2,901	4,080	2,901
Profit for the period attributable to:				
Equity holders of the Parent	3,562	2,796	3,562	2,796
Minority interest	518	105	518	105
Profit after tax	4,080	2,901	4,080	2,901
Earnings per share (sen)				
- Basic	8.3	6.5	8.3	6.5
- Diluted	8.3	6.5	8.3	6.5

The Condensed Consolidated Income Statement should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2006.

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CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 OCTOBER 2006

	<u>AS AT END OF CURRENT QUARTER 31/10/2006</u> RM'000	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2006</u> RM'000
PROPERTY, PLANT AND EQUIPMENT	106,897	111,713
CURRENT ASSETS		
Short term investments	3,209	3,548
Inventories	15,822	15,421
Trade and other receivables	40,375	41,860
Cash and bank balances	48,067	54,262
	<u>107,473</u>	<u>115,091</u>
CURRENT LIABILITIES		
Trade and other payables	24,847	37,829
Lease and hire purchase creditors	816	1,159
Short term borrowings	16,167	17,304
Tax payable	3,468	2,704
	<u>45,298</u>	<u>58,996</u>
NET CURRENT ASSETS	<u>62,175</u>	<u>56,095</u>
	<u>169,072</u>	<u>167,808</u>
FINANCED BY :-		
SHARE CAPITAL	43,001	43,001
RESERVES		
Reserves	8,512	8,512
Retained Profit	86,182	82,620
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	<u>137,695</u>	<u>134,133</u>
MINORITY INTERESTS	<u>6,612</u>	<u>6,094</u>
TOTAL EQUITY	144,307	140,227
LONG TERM LIABILITIES		
Hire purchases payables	222	183
Long term loans	9,629	12,484
Deferred taxation	14,914	14,914
	<u>169,072</u>	<u>167,808</u>
Net assets per share (sen)	<u>320.2</u>	<u>311.9</u>

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2006.

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 OCTOBER 2006**

← NON-DISTRIBUTABLE →

FY2007	Share Capital	Share Premium	Asset Revaluation Reserve	Reserve on Consolidation	Retained Profit	Minority Interest	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance @ 1/8/2006	43,001	649	7,433	430	82,620	6,094	140,227
Net profit for the period	-	-	-	-	3,562	518	4,080
Balance @ 31/10/2006	43,001	649	7,433	430	86,182	6,612	144,307

← NON-DISTRIBUTABLE →

FY2006	Share Capital	Share Premium	Asset Revaluation Reserve	Reserve on Consolidation	Retained Profit	Minority Interest	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Balance @ 1/8/2005	43,001	649	7,433	430	69,240	4,745	125,498
Net profit for the period	-	-	-	-	2,796	105	2,901
Balance @ 31/10/2005	43,001	649	7,433	430	72,036	4,850	128,399

The Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2006.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE QUARTER ENDED 31 OCTOBER 2006**

	Current Year-To-Date Ended 31/10/2006	Preceding Corresponding Year-To-Date Ended 31/10/2005
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	5,588	3,956
Adjustments for non-cash items :		
Depreciation of property, plant and equipment	9,623	8,700
Other non-cash items	(481)	118
Operating income before reinvestment in working capital	14,730	12,774
Net change in current assets	1,084	4,059
Net change in current liabilities	(3,876)	(713)
Income taxes paid	(744)	(521)
Net cash provided by operating activities	11,194	15,599
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment in quoted shares	(420)	-
Proceeds from disposal of quoted shares	1,197	-
Purchase of property, plant and equipment	(13,966)	(2,467)
Proceeds from disposal of property, plant and equipment	96	-
Net cash used in investment activities	(13,093)	(2,467)
CASH FLOWS FROM FINANCING ACTIVITIES		
Hire purchase payables	(304)	(1,058)
Bank borrowings	(3,992)	(5,214)
Net cash used in financing activities	(4,296)	(6,272)
Net changes in cash and cash equivalents	(6,195)	6,860
Cash and cash equivalents at beginning of year	54,262	54,536
Cash and cash equivalents at end of the period	48,067	61,396

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2006.

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation

The interim financial report is unaudited and has been prepared in accordance with Financial Reporting Standards ("FRS") No. 134: "Interim Financial Reporting" issued by the Malaysian Accounting Standards Board and paragraph 9.22 of the Bursa Malaysia Listing Requirements, and should be read in conjunction with the Group's audited financial statements for the year ended 31 July 2006.

Changes in Accounting Policies

The accounting policies and methods of computation adopted by the Group in this interim financial report are consistent with those adopted for the audited financial statements for the year ended 31 July 2006 except for the adoption of the following new/revised FRS effective for the Group's financial period beginning 1 August 2006:-

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sales and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 117	Leases
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the above FRS does not have significant financial impact on the Group. The principal effect of the changes in accounting policies resulting from the adoption of new/revised FRS is as follows:-

FRS 101: Presentation of Financial Statements

The Group has applied the revised FRS 101 where minority interest is now required to be presented within total equity in the consolidated balance sheet. In the consolidated income statement, minority interests are presented as an allocation of the net profit or loss for the period. A similar requirement is also applicable to the statement of changes in equity. FRS 101 also requires disclosure on the face of statement of changes in equity, total recognised income and expenses for the period, showing separately the amounts attributable to equity holders of the Parent and minority interest.

The current period's presentation of the Group's financial statements is based on the revised requirement of FRS 101, with the comparatives restated to conform with the current period's presentation.

2. Audit report of preceding annual financial statements

The audit report of the Group's most recent annual audited financial statements for the year ended 31 July 2006 was not qualified.

3. Seasonality or cyclicity of operations

There is no material seasonal or cyclical fluctuation in the operations of the Group.

4. 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.

5. 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.

6. 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.

7. Dividends paid

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

8. Segmental reporting

Segmental information is not provided as the Group operates primarily in the electronic industry in Malaysia.

9. Valuations of property, plant and equipment

The valuation of property, plant and equipment has been brought forward without any amendment from the previous annual financial statements.

10. Material events not reflected in the financial statements

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

11. Changes in the composition of the Group

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

12. Contingent liabilities

	<u>AS AT</u> <u>31/10/2006</u> RM'000	<u>AS AT</u> <u>31/07/2006</u> RM'000
Guarantees granted to licensed banks in respect of credit facilities extended to subsidiary companies	<u>29,515</u>	<u>31,854</u>

13. Review of Performance of the Group

The Group's revenue for the first quarter ended 31 October 2006 increased by 43% to RM48 million, from RM33.7 million in the previous year corresponding quarter. The Group experienced higher capacity utilisation in all sectors of its business. However, operating margin declined from 14.3% to 12.8%. This was largely attributed to lower average selling prices of some maturing products and higher electricity cost in the quarter under review.

Overall, the Group's net earnings after tax increased by 41% from RM2.9 million to RM4.1 million, for the quarter ended 31 October 2006.

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

The Group achieved a profit before tax of RM5.6 million for the first quarter ended 31 October 2006. This is a 6% decrease from the RM5.9 million profit before tax in the preceding quarter ended 31 July 2006.

The decline was largely attributed to a 4% drop in revenue in the first quarter ended 31 October 2006 as compared to the preceding fourth quarter. The decline was largely due to lower capacity utilisation in the electronic manufacturing service sector of the Group.

15. Prospects

The Group expects to remain profitable in the coming quarter.

16. Profit forecast / profit guarantee

The Group is not subjected to any profit guarantee.

17. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31/10/2006	Preceding Year Corresponding Quarter 31/10/2005	Current Year To Date 31/10/2006	Preceding Year Corresponding Quarter 31/10/2005
	RM'000	RM'000	RM'000	RM'000
Malaysian taxation based on results for the year :				
- Current	1,508	1,050	1,508	1,050
- Deferred	-	75	-	75
	1,508	1,125	1,508	1,125
Under/(Over) provision in respect of prior year :				
- Current	-	(70)	-	(70)
	1,508	1,055	1,508	1,055

The effective tax rate for current quarter and financial year to date is lower than the statutory tax rate due to the utilisation of reinvestment allowances.

18. Sale of unquoted investments and/or properties

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

19. Purchase or disposal of quoted securities

During the first financial quarter, Group made the following acquisitions and disposal of quoted securities.

	Individual Quarter	Cumulative Quarter
	Current Year Quarter 31/10/2006	Current Year To Date 31/10/2006
	RM'000	RM'000
Total purchases	420	420
Total disposal	(768)	(768)
Gain on disposal	429	429
	As at 31/10/2006	As at 31/07/2006
	RM'000	RM'000
Quoted shares : - at cost	3,478	3,826
- at carrying value	3,209	3,548
- at market value	6,676	6,402

20. Status of uncompleted corporate announcement

The Company had proposed to seek 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 4 January 2007.

A circular which set out the details of the Proposed Renewal has been issued to shareholders of the Company on 27 October 2006.

21. Group borrowings and debt securities

	<u>As At</u> <u>31/10/2006</u>	<u>As At</u> <u>31/07/2006</u>
	RM'000	RM'000
(a) Group borrowings		
- Secured	22,922	26,914
- Unsecured	1,500	1,500
Other loan – unsecured	1,374	1,374
	<u>25,796</u>	<u>29,788</u>
(b) Repayable within 12 months	16,167	17,304
Repayable after 12 months	9,629	12,484
	<u>25,796</u>	<u>29,788</u>

(c) The securities provided on term loans comprise 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 bore interest at prevailing commercial rates and has no fixed term of repayment.

22. Financial instruments with off balance sheet risk

There were no financial instruments with off balance sheet risk.

23. Changes in material litigation

There was no pending material litigation.

24. Dividend

The Board does not recommend any interim dividend for the financial quarter ended 31 October 2006.

25. Earnings Per Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per share for the year is based on the net profit attributable to ordinary shareholders of the Parent of RM3,562,000 and the weighted average number of 43,001,000 ordinary shares outstanding during the quarter.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per share for the year is based on the net profit attributable to ordinary shareholders of the Parent of RM3,562,000 and the weighted average number of 43,001,000 dilutive potential ordinary shares outstanding during the current quarter.

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 23 November 2006