

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

Company No : 13022-A

**UNAUDITED FOURTH QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31ST JULY 2008**

The Board of Directors announces the following unaudited results of the Group for the financial quarter ended 31st July 2008.

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE QUARTER ENDED 31 JULY 2008**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/07/2008) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/07/2007) RM'000 (Restated)	CURRENT YEAR TO DATE (31/07/2008) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/07/2007) RM'000 (Restated)
Revenue	46,192	57,600	197,504	209,661
Operating expenses	(41,998)	(48,432)	(177,029)	(182,450)
Other income	438	539	1,847	1,786
Profit from operations	4,632	9,707	22,322	28,997
Finance costs	(349)	(535)	(1,631)	(2,404)
Profit before tax	4,283	9,172	20,691	26,593
Taxation	3,195	145	14,685	(3,789)
Profit after tax	<u>7,478</u>	<u>9,317</u>	<u>35,376</u>	<u>22,804</u>
Profit for the period attributable to:				
Equity holders of the Parent	6,811	9,080	30,661	20,560
Minority interest	667	237	4,715	2,244
Profit after tax	<u>7,478</u>	<u>9,317</u>	<u>35,376</u>	<u>22,804</u>
Earnings per share (sen)				
- Basic	15.8	21.1	71.3	47.8
- Diluted	15.4	21.1	69.4	47.8

The Condensed Consolidated Income Statement should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2007.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 31 JULY 2008

	AS AT END OF CURRENT QUARTER 31/07/2008	AS AT PRECEDING FINANCIAL YEAR END 31/07/2007 (Restated)
	RM'000	RM'000
PROPERTY, PLANT AND EQUIPMENT	144,006	89,613
PREPAID LEASE PAYMENTS ON LAND	6,024	6,166
DEFERRED TAX ASSETS	8,208	-
CURRENT ASSETS		
Short term investments	6,243	1,811
Inventories	8,045	11,243
Trade and other receivables	38,943	43,251
Cash and bank balances	59,016	89,548
	<u>112,247</u>	<u>145,853</u>
CURRENT LIABILITIES		
Trade and other payables	39,531	27,267
Lease and hire purchase creditors	2,780	1,681
Short term borrowings	12,191	16,018
Tax payable	2,252	3,853
	<u>56,754</u>	<u>48,819</u>
NET CURRENT ASSETS	<u>55,493</u>	<u>97,034</u>
	<u>213,731</u>	<u>192,813</u>
FINANCED BY :-		
SHARE CAPITAL	43,015	43,001
RESERVES		
Reserves	8,985	8,082
Retained Profit	134,318	104,947
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	<u>186,318</u>	<u>156,030</u>
MINORITY INTEREST	<u>14,445</u>	<u>9,730</u>
TOTAL EQUITY	<u>200,763</u>	<u>165,760</u>
LONG TERM LIABILITIES		
Hire purchases payables	3,088	2,394
Long term loans	9,006	14,271
Deferred taxation	874	10,388
	<u>213,731</u>	<u>192,813</u>
Net assets per share (sen)	<u>433.1</u>	<u>362.9</u>

The Condensed Consolidated Balance Sheet should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2007.

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED 31 JULY 2008

FY2008	< ----- Attributable to Equity Holders of the Company ----- >							Minority Interest	Total Equity
	Share Capital	< ----- Non-distributable ----- >				Distributable Retained Profit	Total		
		Share Premium	Foreign Currency Translation Reserve	Asset Revaluation Reserve	Negative Goodwill				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1/8/2007									
As previously stated	43,001	649	-	7,433	-	102,191	153,274	8,270	161,544
Effects of adopting FRS 112	-	-	-	-	-	2,756	2,756	1,460	4,216
At 1/8/2007 (restated)	43,001	649	-	7,433	-	104,947	156,030	9,730	165,760
Exchange difference arising on consolidation	-	-	664	-	-	-	664	-	664
Net profit for the period	-	-	-	-	-	30,661	30,661	4,715	35,376
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	(1,290)
Effects on deferred tax relating to reduction in tax rate	-	-	-	225	-	-	225	-	225
Exercised of options to subscribe for ordinary shares in the Company	14	14	-	-	-	-	28	-	28
Balance @ 31/07/2008	43,015	663	664	7,658	-	134,318	186,318	14,445	200,763

FY2007	< ----- Attributable to Equity Holders of the Company ----- >							Minority Interest	Total Equity
	Share Capital	< ----- Non-distributable ----- >				Distributable Retained Profit	Total		
		Share Premium	Foreign Currency Translation Reserve	Asset Revaluation Reserve	Negative Goodwill				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1/8/2006									
As previously stated	43,001	649	-	7,433	430	82,620	134,133	6,094	140,227
Effects of adopting FRS 3	-	-	-	-	(430)	430	-	-	-
Effects of adopting FRS 112	-	-	-	-	-	2,627	2,627	1,392	4,019
At 1/8/2006 (restated)	43,001	649	-	7,433	-	85,677	136,760	7,486	144,246
Net profit for the period	-	-	-	-	-	20,560	20,560	2,244	22,804
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	(1,290)
31/07/2007	43,001	649	-	7,433	-	104,947	156,030	9,730	165,760

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 2007.

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE QUARTER ENDED 31 JULY 2008**

	Current Year-To-Date Ended 31/07/2008	Preceding Corresponding Year-To-Date Ended 31/07/2007 (Restated)
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit before tax	20,691	26,593
Adjustments for non-cash items :		
Depreciation of property, plant and equipment	44,690	40,021
Impairment of property, plant and equipment	354	-
Amortisation of prepaid lease land payment	142	140
Other non-cash items	(2,355)	(5,532)
Operating income before reinvestment in working capital	63,522	61,222
Net change in current assets	8,141	2,787
Net change in current liabilities	2,577	(905)
Income taxes paid	(4,413)	(3,147)
Net cash provided by operating activities	69,827	59,957
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment in quoted shares	(5,166)	(2,096)
Proceeds from disposal of quoted shares	2,266	7,404
Purchase of property, plant and equipment	(86,100)	(29,771)
Proceeds from disposal of property, plant and equipment	178	2,047
Net cash used in investment activities	(88,822)	(22,416)
CASH FLOWS FROM FINANCING ACTIVITIES		
Hire purchase payables	(1,904)	(1,466)
Bank borrowings	(9,092)	501
Dividend paid	(1,290)	(1,290)
Issue of new shares	28	-
Net cash used in financing activities	(12,258)	(2,255)
Net changes in cash and cash equivalents	(31,253)	35,286
Effects of foreign exchange rate changes	721	-
Cash and cash equivalents at beginning of year	89,548	54,262
Cash and cash equivalents at end of the period	59,016	89,548

The Condensed Consolidated Cash Flow Statement should be read in conjunction with the Annual Financial Report for the financial year ended 31st July 2007.

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 Securities Berhad Listing Requirements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 July 2007.

Changes in Accounting Policies

The significant 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 2007 except for the adoption of the following new/revised FRS effective for the Group’s financial period beginning 1 August 2007:-

FRS 112	Income taxes
FRS 117	Leases
FRS 124	Related Party Disclosures

The adoption of the FRSs listed above, other than those stated below, does not have any 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:-

(a) FRS 112: Income taxes

In accordance with FRS 112, deferred tax assets on unutilised tax credit should be recognised. Retrospective adjustments were made to recognise deferred tax asset and comparatives were restated in accordance with FRS 108: Accounting Policies, Change in Accounting Estimates and Errors.

The changes in presentation have been applied retrospectively which comparative have been restated as follows:

Consolidated Balance Sheet As at 31 July 2007	As previously stated RM’000	Effects of adopting FRS 112 RM’000	As restated RM’000
Deferred taxation	14,604	(4,216)	10,388
Retained earnings	102,191	2,756	104,947
Minority interest	8,270	1,460	9,730

Consolidated Income Statement For the year ended 31 July 2007	As previously stated RM’000	Effects of adopting FRS 112 RM’000	As restated RM’000
Income tax	3,986	(197)	3,789
Profit for the period attributable to:			
- Equity holders of the Parent	20,431	129	20,560
- Minority interest	2,176	68	2,244

(b) *FRS 117: Leases*

Prior to 1 August 2007, leasehold land was classified as property, plant and equipment and was stated at cost less accumulated depreciation. The adoption of the revised FRS 117 has resulted in a change in the accounting policy in relation to the classification of leases of land and buildings.

Leasehold land held for own use is now classified as operating lease and where necessary, the minimum lease payments or the up-front payments made are allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and building element of the lease at the inception of the lease. The up-front payment represents prepaid lease payments and are amortised on a straight-line basis over the lease term.

The adoption of FRS 117 has no effect on the consolidated income statement for the current quarter and current financial year-to-date ended 31 July 2008. The reclassification of leasehold land to Prepaid Lease Payments On Land has been accounted for retrospectively which comparatives have been restated as follows:

Consolidated Balance Sheet As at 31 July 2007	As previously stated RM'000	Effects of adopting FRS 117 RM'000	As restated RM'000
Property, plant and equipment	95,779	(6,166)	89,613
Prepaid land lease payment	-	6,166	6,166

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 2007 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

During the current financial year to-date, the Company increased its issued and paid-up share capital from RM43,000,500 to RM43,014,500 as a result of the issue of 14,000 new ordinary shares of RM1.00 each to Eligible Persons who have exercised their options under the KESMI Employees Share Option Scheme.

There were no other issuances, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial year to-date.

7. Dividends paid

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 2007, was paid on 5 February 2008.

8. Segmental reporting

	Burn-in, testing and electronic manufacturing service		Investments holdings		Total	
	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000	2008 RM'000	2007 RM'000
Revenue						
Sales to external customers	197,504	209,661	-	-	197,504	209,661
Dividend income	-	-	229	220	229	220
	197,504	209,661	229	220	197,733	209,881
Results						
Segment results	18,023	21,583	1,761	3,791	19,784	25,374
Other operating income					920	2,057
Finance costs					(1,631)	(2,404)
Interest income					1,618	1,566
Profit before tax					20,691	26,593
Income tax					14,685	(3,789)
Profit for the year					35,376	22,804

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.

Material events not reflected in the financial statements

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

10. Changes in the composition of the Group

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

11. Contingent liabilities

	<u>AS AT</u> <u>31/07/2008</u> RM'000	<u>AS AT</u> <u>31/07/2007</u> RM'000
Guarantees granted to licensed banks in respect of credit facilities extended to subsidiary companies	<u>17,505</u>	<u>22,655</u>

12. Review of Performance of the Group

The Group's revenue for the year ended 31 July 2008 decreased by 6% to RM198 million, from RM210 million in the previous corresponding year, due mainly to lower revenue from the electronic manufacturing service ("EMS") business. This was due to some of the customers' products having reached its end of life production and longer set-up time for the qualification of new products.

Profit from operations decreased by 23% to RM22.3 million from RM29 million in the previous corresponding year. This decline corresponded with the lower EMS revenue, as well as a higher operating costs associated with new product qualification, and lower non-recurring gains amounting to RM3.7 million on disposal of equity shares and fixed assets.

The Group wrote back deferred tax provision amounting to RM17.04 million in the year under review on obtaining satisfactory agreement on Reinvestment Allowance claims.

Overall, the Group's net earnings after tax increased by 55% from RM22.8 million to RM35.4 million, for the year ended 31 July 2008.

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

The Group achieved a profit before tax of RM4.3 million for the fourth quarter ended 31 July 2008. This was a decrease of RM0.6 million from the RM4.8 million profit before tax reported in the preceding quarter ended 30 April 2008.

The decline was largely attributed to a RM3.8 million revenue decrease in the fourth quarter as compared to the third quarter as the Group experienced lower capacity utilisation in the electronic manufacturing service business.

14. Prospects

The Group expects to remain profitable in the coming financial year.

Profit forecast / profit guarantee

The Group is not subjected to any profit guarantee.

15. Taxation

	Individual Quarter		Cumulative Quarter	
	Current Year Quarter 31/07/2008	Preceding Year Corresponding Quarter 31/07/2007 (Restated)	Current Year To Date 31/07/2008	Preceding Year Corresponding Quarter 31/07/2007 (Restated)
	RM'000	RM'000	RM'000	RM'000
Malaysian taxation based on results for the year :				
- Current	(2,785)	111	2,675	4,202
- Deferred	(457)	1,131	(457)	1,214
	(3,242)	1,242	2,218	5,416
Over provision in respect of prior year :				
- Current	137	114	137	94
- Deferred	(90)	(1,501)	(17,040)	(1,721)
	(3,195)	(145)	(14,685)	3,789

16. 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.

17. Purchase or disposal of quoted securities

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

	Individual Quarter	Cumulative Quarter
	Current Year Quarter 31/07/2008	Current Year To Date 31/07/2008
	RM'000	RM'000
Total purchases	379	5,167
Total disposal	-	(678)
Gain on disposal	-	1,588
	As at 31/07/2008	As at 31/07/2007
	RM'000	RM'000
Quoted shares : - at cost	6,578	2,089
- at carrying value	6,243	1,811
- at market value	8,788	6,797

18. Status of uncompleted corporate announcement

There was no uncompleted corporate announcement.

19. Group borrowings and debt securities

	<u>As At</u> <u>31/07/2008</u> RM'000	<u>As At</u> <u>31/07/2007</u> RM'000
(a) Group borrowings		
- Secured	19,823	28,915
Other loan – unsecured	1,374	1,374
	<u>21,197</u>	<u>30,289</u>
(b) Repayable within 12 months	12,191	16,018
Repayable after 12 months	9,006	14,271
	<u>21,197</u>	<u>30,289</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.

20. Financial instruments with off balance sheet risk

There were no financial instruments with off balance sheet risk.

21. Changes in material litigation

There was no pending material litigation.

22. Dividend

The Board recommends for shareholders' approval at the forthcoming Annual General Meeting a first and final tax exempt dividend of 3.0 sen per share in respect of the financial year ended 31 July 2008.

23. Earnings Per Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per share for the period is based on the net profit attributable to ordinary shareholders of the Parent of RM30,661,000 and the weighted average number of 43,005,000 ordinary shares outstanding during the year.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per share for the period is based on the net profit attributable to ordinary shareholders of the Parent of RM30,661,000 and the weighted average number of 44,169,000 dilutive potential ordinary shares outstanding during the current year.

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 17 September 2008