

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2011**

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

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 JANUARY 2011**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/01/2011) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2010) RM'000	CURRENT YEAR TO DATE (31/01/2011) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2010) RM'000
Revenue	63,652	55,888	127,233	103,135
Operating expenses	(57,306)	(51,100)	(112,079)	(95,423)
Other income	300	69	356	149
Profit from operations	6,646	4,857	15,510	7,861
Interest income	265	320	512	639
Finance costs	(995)	(389)	(1,481)	(847)
Profit before tax	5,916	4,788	14,541	7,653
Income tax expense	(1,575)	(1,612)	(4,206)	(2,186)
Profit for the period	4,341	3,176	10,335	5,467
Other comprehensive income:				
Foreign currency translation reserve	-	(339)	(39)	(662)
Other comprehensive income for the period, net of tax	-	(339)	(39)	(662)
Total comprehensive income for the period	4,341	2,837	10,296	4,805
Profit attributable to:				
Owners of the parent	3,313	2,802	7,785	4,518
Minority interests	1,028	574	2,550	949
	4,341	3,176	10,335	5,467
Total comprehensive income attributable to:				
Owners of the parent	3,313	2,263	7,746	3,856
Minority interests	1,028	574	2,550	949
	4,341	2,837	10,296	4,805
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	7.7	6.0	18.1	10.5
- Diluted	7.7	6.0	18.1	10.5

The condensed consolidated statement of comprehensive income should be read in conjunction with the audited financial statements for the financial year ended 31 July 2010 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 JANUARY 2011

	<u>AS AT END OF CURRENT QUARTER 31/01/2011</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2010</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	179,254	150,707
Prepaid land lease payments	5,666	5,737
Deferred tax assets	7,389	6,386
	<u>192,309</u>	<u>162,830</u>
Current assets		
Inventories	21,341	16,085
Trade and other receivables	74,999	62,835
Other investments	12,456	7,204
Tax recoverable	177	538
Cash and bank balances	72,076	68,585
	<u>181,049</u>	<u>155,247</u>
Total assets	<u><u>373,358</u></u>	<u><u>318,077</u></u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Reserves	14,444	14,483
Retained earnings	163,409	153,241
	<u>220,868</u>	<u>210,739</u>
Minority interest	20,795	18,245
Total equity	<u>241,663</u>	<u>228,984</u>
Non-current liabilities		
Obligations under finance leases	804	1,372
Long term loans	56,090	8,212
Deferred tax liabilities	3,583	3,583
	<u>60,477</u>	<u>13,167</u>
Current liabilities		
Trade and other payables	41,014	55,979
Obligations under finance leases	1,477	2,029
Term loans	25,634	17,231
Tax payable	3,093	687
	<u>71,218</u>	<u>75,926</u>
Total liabilities	<u>131,695</u>	<u>89,093</u>
Total equity and liabilities	<u><u>373,358</u></u>	<u><u>318,077</u></u>
Net assets per share attributable to owners of the parent (sen)	<u><u>513.5</u></u>	<u><u>489.9</u></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 2010 and the accompanying explanatory notes attached to the interim financial statements.

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Company No : 13022-A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED 31 JANUARY 2011

FY2011	< ----- Attributable to owners of the parent ----- >						Minority interest	Total equity
	Share capital	< ----- Non-distributable ----- >			Distributable retained earnings	Total		
		Share premium	Foreign currency translation reserve	Asset revaluation reserve				
	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
Effect 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)	-	7,785	7,746	2,550	10,296
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
Balance at 31 January 2011	43,015	663	866	12,915	163,409	220,868	20,795	241,663

FY2010	< ----- Attributable to owners of the parent ----- >						Minority interest	Total equity
	Share capital	< ----- Non-distributable ----- >			Distributable retained earnings	Total		
		Share premium	Foreign currency translation reserve	Asset revaluation reserve				
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 1 August 2009	43,015	663	2,157	12,915	142,785	201,535	15,971	217,506
Total comprehensive income	-	-	(662)	-	4,518	3,856	949	4,805
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)
Balance at 31 January 2010	43,015	663	1,495	12,915	146,013	204,101	16,920	221,021

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 2010 and the accompanying explanatory notes attached to the interim financial statements.

KESM INDUSTRIES BERHAD
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Company No : 13022-A

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 JANUARY 2011

	Current year to date ended 31/01/2011 RM'000	Preceding corresponding year to date ended 31/01/2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	14,541	7,653
Adjustments for non-cash items :		
Depreciation of property, plant and equipment	24,541	21,511
Impairment of property, plant and equipment	-	89
Amortisation of prepaid lease payments on land	71	74
Other non-cash items	(2,151)	(968)
Operating income before reinvestment in working capital	37,002	28,359
Increase in current assets	(17,420)	(17,540)
(Decrease)/increase in current liabilities	(14,639)	7,333
Taxes paid	(2,442)	(1,110)
Interest paid	(1,481)	(847)
Interest received	512	639
Net cash generated from operating activities	1,532	16,834
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment in quoted shares	-	(625)
Proceeds from disposal of quoted shares	-	1,382
Dividend income	356	149
Purchase of property, plant and equipment	(53,456)	(8,670)
Proceeds from disposal of property, plant and equipment	833	71
Net cash used in investment activities	(52,267)	(7,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of obligations under finance leases	(1,120)	(1,574)
Repayments of loans	(8,228)	(10,817)
Proceeds from loans	64,688	-
Dividend paid	(1,290)	-
Net cash provided by/(used in) financing activities	54,050	(12,391)
Net increase in cash and cash equivalents	3,315	(3,250)
Effects of exchange rate changes	176	586
Cash and cash equivalents at beginning of year	68,585	80,692
Cash and cash equivalents at end of the period	72,076	78,028

The condensed consolidated statement of cash flows should be read in conjunction with the audited financial statements for the financial year ended 31 July 2010 and the accompanying explanatory notes attached to the interim financial statements.

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SUMMARY OF KEY FINANCIAL INFORMATION
FOR THE SECOND QUARTER ENDED 31 JANUARY 2011

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER (31/01/2011) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2010) RM'000	CURRENT YEAR TO DATE (31/01/2011) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2010) RM'000
1. Revenue	63,652	55,888	127,233	103,135
2. Profit before tax	5,916	4,788	14,541	7,653
3. Profit for the period	4,341	3,176	10,335	5,467
4. Profit attributable to ordinary equity holders of the parent	3,313	2,602	7,785	4,518
5. Basic earnings per share (sen)	7.7	6.0	18.1	10.5
6. Proposed/Declared dividend per share (sen)	-	-	-	-

	AS AT END OF CURRENT QUARTER	AS AT PRECEDING FINANCIAL YEAR END
7. Net assets per share attributable to ordinary equity holders of the parent (RM)	5.14	4.90

ADDITIONAL INFORMATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	CURRENT YEAR QUARTER (31/01/2011) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2010) RM'000	CURRENT YEAR TO DATE (31/01/2011) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2010) RM'000
1. Gross interest income	265	320	512	639
2. Gross interest expense	(995)	(389)	(1,481)	(847)

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 2010. 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 2010.

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 2010, except for the adoption of the new/revised Financial Reporting Standards (FRSs), Amendments to FRSs, and IC interpretations effective for financial year beginning 1 August 2010.

Other than for the application of FRS 139: Financial Instruments: Recognition and Measurement, the application of the new/revised FRSs, Amendments to FRSs, and IC interpretations did not result in any material financial impact on the Group.

The principal effects of new/revised FRSs are as follows:

FRS 7: Financial Instruments: Disclosures

FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis of the market risk.

FRS 101: Presentation of Financial Statements (Revised)

The revised FRS 101 introduces changes in the presentation and disclosures of financial statements. The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity included only details of transactions with owners, with all non-owner changes in equity presented as a single line. The Standard also introduces the statement of comprehensive income, with all items of income and expense recognized in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group and the Company have elected to present this statement as one single statement.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

The revised FRS 101 also requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

The revised FRS 101 was adopted retrospectively by the Group and the Company.

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 sets out the new requirements for the recognition and measurement of the Group's financial instruments. Financial instruments are recorded initially at fair value. Subsequent measurement of the financial instruments in the statement of financial position reflects the designation for the financial instruments. The effects arising from the adoption of this Standard has been accounted for by adjusting the opening balance of retained earnings as at 1 August 2010. Comparatives are not restated. The adoption of FRS 139 has affected the equity investments as discussed below:

Prior to 1 August 2010, the Group classified its investments in equity instruments which were held for trading as marketable securities. Such investments were carried at the lower of cost and market value, determined on an aggregate basis. Upon the adoption of FRS139, these investments are designated at 1 August 2010 as financial assets at fair value through profit or loss and accordingly are stated at their fair values as at that date amounting to RM3,673,000. The adjustments to their previous carrying amounts are recognized as adjustments to the opening balance of retained earnings as at 1 August 2010, as disclosed in the statement of changes in equity.

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 2010 was not qualified.

4. Seasonality or cyclicity of operations

There is 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

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 2010, was paid on 24 January 2011.

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	
	31/01/2011 RM'000	31/01/2010 RM'000	31/01/2011 RM'000	31/01/2010 RM'000	31/01/2011 RM'000	31/01/2010 RM'000
Revenue/operating income						
Sales to external customers	127,233	103,135	-	-	127,233	103,135
Dividend income	-	-	356	149	356	149
	127,233	103,135	356	149	127,589	103,284
Results						
Segment profit	13,573	6,904	1,937	957	15,510	7,861
Interest income					512	639
Finance costs					(1,481)	(847)
Profit before tax					14,541	7,653
Income tax expense					(4,206)	(2,186)
Profit for the period					10,335	5,467

10. Valuations of property, plant and equipment

The property, plant and equipment are 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 are 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

	As at 31/01/2011 RM'000	As at 31/07/2010 RM'000
Guarantees granted to licensed banks in respect of credit facilities extended to subsidiary companies	16,373	16,373

14. Significant related party disclosures

	<u>As at</u> <u>31/01/2011</u> RM'000	<u>As at</u> <u>31/01/2010</u> RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiary companies:		
Management fees charged by Sunright Limited	2,119	2,112
Interest on loan from Sunright Limited	58	58
Sales to:		
- KES Systems & Service (1993) Pte Ltd	36	56
- KES Systems, Inc.	-	16
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	4,938	2,321
- Kestronics (M) Sdn Bhd	1,095	75
- KES Systems, Inc.	4,097	4
- KESU Systems & Service, Inc.	-	44
- KEST Systems & Service Ltd	5	416

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 half year ended 31 January 2011 increased by RM24.1 million or 23%, from RM103.1 million in the preceding year's corresponding period to RM127.2 million, because of stronger demand for burn-in and testing services.

Operating expenses were higher by RM16.7 million for the period under review which was largely attributed to higher labour and utility expenses to support higher sales, and higher depreciation following increased capital expenditure.

Finance costs increased by RM0.6 million, from RM0.8 million to RM1.5 million, on higher borrowings in support of production capacities in China.

Group's profit before tax was higher by RM6.9 million from RM7.7 million in the preceding year's corresponding period to RM14.5 million for the half year ended 31 January 2011, primarily due to higher revenue.

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

The Group recorded a lower profit before tax of RM5.9 million for the current quarter ended 31 January 2011 compared to RM8.6 million in the preceding quarter ended 31 October 2010, representing a decrease of RM2.7 million.

The decrease in profit before tax was the result of:

- (i) lower fair value gain on held for trading investment securities by RM0.9 million;
- (ii) higher material consumption of RM2.5 million to support higher sales and assembly of electronic equipment; and
- (iii) higher interest expense of RM0.5 million following additional loans; offset by
- (iv) an increase in exchange gain of RM1.2 million as a result of lower net USD denominated receivables.

17. Prospects

The Group expects to remain profitable in the coming quarter.

18. Profit forecast / profit guarantee

The Group is not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding quarter
	31/01/2011	31/01/2010	31/01/2011	31/01/2010
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,328	979	3,218	1,553
- Foreign tax	1,242	633	1,924	633
- Under provision in prior years	-	-	59	-
	2,570	1,612	5,201	2,186
Deferred tax				
- Relating to origination and reversal of temporary differences	(995)	-	(995)	-
	1,575	1,612	4,206	2,186

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

20. Sale of unquoted investments and/or properties

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

21. Purchase or disposal of quoted securities

During the second financial quarter, there were no acquisition or disposal of quoted securities by the Group.

	<u>As at 31/01/2011</u> RM'000	<u>As at 31/07/2010</u> RM'000
Quoted investments:		
- at carrying value	<u>12,456</u>	<u>7,204</u>
- at market value	<u>12,456</u>	<u>10,877</u>

22. Status of uncompleted corporate proposals

There was no corporate proposal announced and not completed as at the date of this announcement.

23. Group borrowings and debt securities

	<u>As At 31/01/2011</u> RM'000	<u>As At 31/07/2010</u> RM'000
(a) Term loans – secured	80,350	24,069
Other loan – unsecured	<u>1,374</u>	<u>1,374</u>
	<u>81,724</u>	<u>25,443</u>
(b) Repayable within 12 months	25,634	17,231
Repayable after 12 months	<u>56,090</u>	<u>8,212</u>
	<u>81,724</u>	<u>25,443</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 bears interest at prevailing commercial rates and has no fixed term of repayment.

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 January 2011.

27. Earnings Per Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per share for the period is based on the profit attributable to owners of the parent of RM7,785,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the quarter.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per share for the period is based on the profit attributable to owners of the parent of RM7,785,000 and the weighted average number of 43,030,000 dilutive potential ordinary shares outstanding during the current quarter.

28. Realised and unrealised profits

	Preceding quarter ended 31/10/2010	Current quarter ended 31/01/2011
- Realised	RM'000 173,711	RM'000 175,191
- Unrealised	8,053	10,114
Total retained profits of the Company and its subsidiaries	181,764	185,305
Consolidation adjustments	(20,378)	(21,896)
Total group retained profits as per consolidated accounts	161,386	163,409

The Company has applied Listing Directive (LD09/10: Disclosure Requirements Pursuant to FRS139, Financial Instruments: Recognition and Measurement) which exempts entities from disclosing comparative figures on the breakdown of realised and unrealised profits in the first year of applying the directive requirement.

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 08 March 2011