

KESM INDUSTRIES BERHAD

(Incorporated in Malaysia)

Company No : 13022-A

UNAUDITED FOURTH QUARTERLY REPORT ON CONSOLIDATED RESULTS FOR THE FINANCIAL QUARTER ENDED 31 JULY 2011

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

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

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/07/2011) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/07/2010) (Restated) RM'000	CURRENT YEAR TO DATE (31/07/2011) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/07/2010) (Restated) RM'000
Revenue	61,349	65,056	248,113	226,466
Operating expenses	(57,347)	(58,245)	(223,948)	(207,111)
Other income	96	69	509	310
Profit from operations	4,098	6,880	24,674	19,665
Interest income	515	328	1,298	1,251
Finance costs	(778)	(316)	(3,256)	(1,513)
Profit before tax	3,835	6,892	22,716	19,403
Income tax expense	(598)	(2,155)	(6,037)	(5,383)
Profit for the period	3,237	4,737	16,679	14,020
Other comprehensive income:				
Foreign currency translation reserve	(167)	50	(1,176)	(1,252)
Other comprehensive income for the period, net of tax	(167)	50	(1,176)	(1,252)
Total comprehensive income for the period	3,070	4,787	15,503	12,768
Profit attributable to:				
Owners of the parent	2,144	4,358	12,382	11,746
Minority interests	1,093	379	4,297	2,274
	3,237	4,737	16,679	14,020
Total comprehensive income attributable to:				
Owners of the parent	1,977	4,408	11,206	10,494
Minority interests	1,093	379	4,297	2,274
	3,070	4,787	15,503	12,768
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	5.0	10.1	28.8	27.3
- Diluted (Note A)	-	10.1	-	27.3

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

KESM INDUSTRIES BERHAD

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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JULY 2011**

	<u>AS AT END OF CURRENT QUARTER 31/07/2011</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2010 (Restated)</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	162,768	156,444
Deferred tax assets	5,320	6,386
	<u>168,088</u>	<u>162,830</u>
Current assets		
Inventories	22,999	16,085
Trade and other receivables	67,128	59,753
Prepayments	1,203	3,082
Other investments	11,315	7,204
Tax recoverable	1,106	538
Cash and bank balances	100,526	68,585
	<u>204,277</u>	<u>155,247</u>
Total assets	<u>372,365</u>	<u>318,077</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Reserves	14,212	14,483
Retained earnings	167,101	153,241
	<u>224,328</u>	<u>210,739</u>
Minority interest	22,542	18,245
Total equity	<u>246,870</u>	<u>228,984</u>
Non-current liabilities		
Obligations under finance leases	1,634	1,372
Long term loans	56,679	8,212
Deferred tax liabilities	3,296	3,583
	<u>61,609</u>	<u>13,167</u>
Current liabilities		
Trade and other payables	34,911	55,979
Obligations under finance leases	2,165	2,029
Term loans	26,364	17,231
Tax payable	446	687
	<u>63,886</u>	<u>75,926</u>
Total liabilities	<u>125,495</u>	<u>89,093</u>
Total equity and liabilities	<u>372,365</u>	<u>318,077</u>
Net assets per share attributable to owners of the parent (sen)	<u>521.5</u>	<u>489.9</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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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE QUARTER ENDED 31 JULY 2011

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	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 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	-	-	(1,176)	-	-	12,382	11,206	4,297	15,503
Transaction with owners									
Transfer to statutory reserve	-	-	-	-	905	(905)	-	-	-
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	(1,290)
Balance at 31 July 2011	43,015	663	(271)	12,915	905	167,101	224,328	22,542	246,870

FY2010	< ----- 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 2009	43,015	663	2,157	12,915	142,785	201,535	15,971	217,506	
Total comprehensive income	-	-	(1,252)	-	11,746	10,494	2,274	12,768	
Transaction with owners									
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)	
Balance at 31 July 2010	43,015	663	905	12,915	153,241	210,739	18,245	228,984	

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

	Current year to date ended 31/07/2011	Preceding corresponding year to date ended 31/07/2010
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	22,716	19,403
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	51,972	42,617
Impairment of property, plant and equipment	250	177
Other non-cash items	(364)	(1,242)
Operating income before reinvestment in working capital	74,574	60,955
Increase in current assets	(12,708)	(21,405)
(Decrease)/increase in current liabilities	(24,009)	15,890
Taxes paid	(6,058)	(2,213)
Interest paid	(3,256)	(1,513)
Interest received	1,298	1,251
Net cash flows from operating activities	29,841	52,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	-	(4,289)
Proceeds from disposal of investment securities	1,094	7,792
Dividend income	509	310
Purchase of property, plant and equipment	(57,825)	(56,241)
Proceeds from disposal of property, plant and equipment	833	276
Net cash flows used in investment activities	(55,389)	(52,152)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(2,140)	(2,673)
Repayment of loans	(21,635)	(18,169)
Proceeds from loans	82,379	8,105
Dividend paid	(1,290)	(1,290)
Net cash flows from/(used in) financing activities	57,314	(14,027)
Net increase/(decrease) in cash and cash equivalents	31,766	(13,214)
Effects of exchange rate changes	175	1,107
Cash and cash equivalents at beginning of year	68,585	80,692
Cash and cash equivalents at end of the period	100,526	68,585

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.

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. The adjustments to their previous carrying amounts of RM3,673,000 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.

Amendments to FSR 117 Leases

Prior to 1 August 2010, for all leases of land and buildings, if title is not expected to pass to the lessee by the end of the lease term, the lessee normally does not receive substantially all of the risks and rewards incidental to ownership. Hence, all leasehold land held for own use was classified by the Group as operating lease and where necessary, the minimum lease payments or the up-front payments made were allocated between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payment represented prepaid lease payments and were amortised on a straight-line basis over the lease term.

The amendments to FRS117 Leases clarify that leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets. They also clarify that the present value of the residual value of the property in a lease with a term of several decades would be negligible and accounting for the land element as a finance leases in such circumstances would be consistent with the economic position of the lessee. Hence, the adoption of the amendments to FRS117 has resulted in certain unexpired land leases to be reclassified as finance leases. The Group has applied this change in accounting policy retrospectively and certain comparatives have been restated. Upon the adoption of Amendments to FRS117, the carrying values of property, plant and equipment as at 31 July 2011 increased by RM5,595,000 (2010: RM5,737,000; 2009: RM5,882,000) with a corresponding decrease of same amount in prepaid land lease payments.

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	
	31/07/2011 RM'000	31/07/2010 RM'000	31/07/2011 RM'000	31/07/2010 RM'000	31/07/2011 RM'000	31/07/2010 RM'000
Revenue/operating income						
Sales to external customers	248,113	226,466	-	-	248,113	226,466
Dividend income	-	-	509	310	509	310
	248,113	226,466	509	310	248,622	226,776
Results						
Segment profit	22,633	16,861	2,041	2,804	24,674	19,665
Interest income					1,298	1,251
Finance costs					(3,256)	(1,513)
Profit before tax					22,716	19,403
Income tax expense					(6,037)	(5,383)
Profit for the year					16,679	14,020

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

14. Significant related party disclosures

	<u>As at</u> <u>31/07/2011</u> RM'000	<u>As at</u> <u>31/07/2010</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	4,799	3,853
Interest on loan from Sunright Limited	117	116
Sales to:		
- KES Systems & Service (1993) Pte Ltd	79	441
- KES Systems, Inc.	-	16
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	5,430	10,446
- Kestronics (M) Sdn Bhd	1,667	2,006
- KES Systems, Inc.	4,095	11,011
- KESU Systems & Service, Inc.	-	44
- KEST Systems & Service Ltd	5	410

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 increased from RM226.5 million to RM248.1 million, representing an improvement of RM21.6 million or 9.6% for the year ended 31 July 2011 compared to the last financial year. This was the result of strong demand for burn-in and testing services.

Operating expenses were higher by RM16.8 million for the year under review. This was largely attributed to higher labour and overhead costs to support higher sales, higher depreciation following increased capital expenditure and offset by lower material costs resulting from lower electronic manufacturing services.

Finance costs increased by RM1.7 million, from RM1.5 million to RM3.3 million, as increased production equipment were partially financed by external borrowings.

In effect, the Group's profit before tax was higher by RM3.3 million or 17.1%, from RM19.4 million to RM22.7 million, for the financial year ended 31 July 2011.

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

The Group's profit before tax for the fourth quarter ended 31 July 2011 were lower by RM0.5 million, from RM4.3 million in the preceding quarter ended 30 April 2011 to RM3.8 million for the fourth quarter ended 31 July 2011, primarily due to lower sales margin resulting from higher depreciation charges.

17. Prospects

Gartner, an independent market research company, had recently forecasted a downward revision of the global semiconductor industry, from its previous quarter's projection for 5.1% growth in 2011. It is now anticipating a year-on-year negative growth of 0.1% to USD299 billion.

The Group remains cautious as global economies, business and consumer confidence are threatened by a faltering US economy coupled with Europe's sovereign debt issues. Growth prospect is likely to deteriorate if the world economies were to weaken further. Notwithstanding this concern, the Group had embarked on stringent cost controls and productivity improvements. The Group expects to remain profitable in the coming quarter ending FY2012.

18. Profit forecast / profit guarantee

The Group is not subjected to any profit guarantee.

19. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 31/07/2011	Preceding year corresponding quarter 31/07/2010	Current year to date 31/07/2011	Preceding year corresponding quarter 31/07/2010
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	(2,396)	26	1,619	1,730
- Foreign tax	674	-	3,805	1,524
- Under/(over) provision in prior years	(126)	109	(175)	109
	(1,848)	135	5,249	3,363
Deferred tax				
- Relating to origination and reversal of temporary differences	2,279	2,378	621	2,378
- Under/(over) provision in prior years	167	(358)	167	(358)
	2,446	2,020	788	2,020
	598	2,155	6,037	5,383

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.

Purchase or disposal of quoted securities

During the fourth financial quarter, there was no acquisition and disposal of quoted securities.

	Individual period	Cumulative period
	Current year quarter 31/07/2011	Current year to date 31/07/2011
	RM'000	RM'000
Total disposal	-	(782)
Gain on disposal	-	312
	As at 30/07/2011	As at 31/07/2010
	RM'000	RM'000
Quoted shares: - at carrying value	11,315	7,204
- at market value	11,315	10,877

21. Status of uncompleted corporate proposals

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

22. Group borrowings and debt securities

	<u>As At</u> <u>31/07/2011</u> RM'000	<u>As At</u> <u>31/07/2010</u> RM'000
(a) Term loans – secured	81,669	24,069
Other loan – unsecured	1,374	1,374
	<u>83,043</u>	<u>25,443</u>
(b) Repayable within 12 months	26,364	17,231
Repayable after 12 months	56,679	8,212
	<u>83,043</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 is not expected to be repaid in the next 12 months.

23. Off balance sheet financial instruments

There were no off balance sheet financial instruments.

24. Changes in material litigation

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

25. 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 2011.

26. 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 RM12,382,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the year.

27. Realised and unrealised profits

	Preceding quarter ended 30/04/2011	Current quarter ended 31/07/2011
	RM'000	RM'000
- Realised	177,707	183,061
- Unrealised	10,715	7,554
Total retained profits of the Company and its subsidiaries	188,422	190,615
Consolidation adjustments	(22,560)	(23,514)
Total group retained profits as per consolidated accounts	165,862	167,101

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 : 20 September 2011