

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED THIRD QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 30 APRIL 2012**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 30 April 2012.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 30 APRIL 2012**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (30/04/2012) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (30/04/2011) RM'000	CURRENT YEAR TO DATE (30/04/2012) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (30/04/2011) RM'000
Revenue	58,582	59,531	167,216	186,764
Other items of income				
Interest income	589	271	1,929	783
Dividend income	82	57	290	413
Other income	1,430	465	8,389	1,869
Items of expense				
Raw materials and consumables used	(11,907)	(15,050)	(36,147)	(46,138)
Changes in work-in-progress	(335)	49	(180)	167
Employee benefits expense	(17,384)	(14,110)	(47,163)	(44,791)
Depreciation of property, plant and equipment	(13,857)	(13,205)	(42,369)	(37,817)
Finance costs	(772)	(997)	(2,584)	(2,478)
Other expenses	(12,725)	(12,671)	(37,898)	(39,891)
Profit before tax	3,703	4,340	11,483	18,881
Income tax expense	(939)	(1,233)	(2,934)	(5,439)
Profit net of tax	2,764	3,107	8,549	13,442
Other comprehensive income:				
Foreign currency translation	(6)	(970)	2,717	(1,009)
Other comprehensive income for the period, net of tax	(6)	(970)	2,717	(1,009)
Total comprehensive income for the period	<u>2,758</u>	<u>2,137</u>	<u>11,266</u>	<u>12,433</u>
Profit attributable to:				
Owners of the parent	1,861	2,453	6,743	10,238
Minority interests	903	654	1,806	3,204
	<u>2,764</u>	<u>3,107</u>	<u>8,549</u>	<u>13,442</u>
Total comprehensive income attributable to:				
Owners of the parent	1,855	1,483	9,460	9,229
Minority interests	903	654	1,806	3,204
	<u>2,758</u>	<u>2,137</u>	<u>11,266</u>	<u>12,433</u>
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	<u>4.3</u>	<u>5.7</u>	<u>15.7</u>	<u>23.8</u>

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 30 APRIL 2012

	<u>AS AT END OF CURRENT QUARTER 30/04/2012</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2011</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	140,373	162,768
Deferred tax assets	7,454	5,320
	<u>147,827</u>	<u>168,088</u>
Current assets		
Inventories	21,172	22,999
Trade and other receivables	63,057	67,128
Prepayments	2,029	1,203
Tax recoverable	771	1,106
Investment securities	10,398	11,315
Cash and bank balances	112,026	100,526
	<u>209,453</u>	<u>204,277</u>
Total assets	<u><u>357,280</u></u>	<u><u>372,365</u></u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Other reserves	16,929	14,212
Retained earnings	172,554	167,101
	<u>232,498</u>	<u>224,328</u>
Minority interests	24,348	22,542
Total equity	<u><u>256,846</u></u>	<u><u>246,870</u></u>
Non-current liabilities		
Obligations under finance leases	857	1,634
Long term loans	39,947	56,679
Deferred tax liabilities	2,896	3,296
	<u>43,700</u>	<u>61,609</u>
Current liabilities		
Trade and other payables	28,987	34,911
Obligations under finance leases	1,797	2,165
Term loans	25,079	26,364
Income tax payable	871	446
	<u>56,734</u>	<u>63,886</u>
Total liabilities	<u><u>100,434</u></u>	<u><u>125,495</u></u>
Total equity and liabilities	<u><u>357,280</u></u>	<u><u>372,365</u></u>
Net assets per share attributable to owners of the parent (sen)	<u><u>540.5</u></u>	<u><u>521.5</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 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 30 APRIL 2012**

FY2012	< ----- Attributable to owners of the parent ----- >							Minority interests	Total equity
	< ----- Non-distributable ----- >					Distributable			
	Share capital	Share premium	Foreign currency translation reserve	Asset revaluation reserve	Statutory reserve fund	Retained earnings	Total		
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	-	-	2,717	-	-	6,743	9,460	1,806	11,266
Transaction with owners									
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 30 April 2012	43,015	663	2,446	12,915	905	172,554	232,498	24,348	256,846

FY2011	< ----- Attributable to owners of the parent ----- >							Minority interests	Total equity
	< ----- Non-distributable ----- >					Distributable			
	Share capital	Share premium	Foreign currency translation reserve	Asset revaluation reserve	Retained earnings	Total			
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	
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	-	-	(1,009)	-	10,238	9,229	3,204	12,433	
Transaction with owners									
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)	
At 30 April 2011	43,015	663	(104)	12,915	165,862	222,351	21,449	243,800	

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
(Incorporated in Malaysia)

Company No : 13022-A

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 30 APRIL 2012

	Current year to date 30/04/2012	Preceding year corresponding period 30/04/2011
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	11,483	18,881
Adjustments for:		
Depreciation of property, plant and equipment	42,369	37,817
Property, plant and equipment written off	16	1
(Gain)/loss on disposal of property, plant and equipment	(201)	44
Loss/(gain) on disposal of investment securities held for trading	15	(312)
Net fair value gain on investment securities held for trading	(246)	(1,320)
Unrealised exchange gain	(1,334)	(1,269)
Inventories written down	600	-
Dividend income	(290)	(413)
Interest income	(1,929)	(783)
Finance costs	2,584	2,478
Operating cash flows before working capital changes	53,067	55,124
Decrease/(increase) in inventories	1,227	(7,599)
Decrease/(increase) in prepayment, trade and other receivables	3,245	(6,525)
Increase in trade and other payables	(2,902)	(20,754)
Cash generated from operations	54,637	20,246
Income taxes paid	(4,708)	(3,241)
Interest paid	(2,584)	(2,478)
Interest received	1,929	783
Net cash generated from operating activities	49,274	15,310
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	1,149	1,094
Dividend income	290	413
Purchase of property, plant and equipment	(15,052)	(53,240)
Proceeds from disposal of property, plant and equipment	570	833
Net cash used in investing activities	(13,043)	(50,900)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,699)	(1,646)
Repayment of term loans	(22,481)	(13,672)
Proceeds from term loans	2,575	82,081
Dividend paid on ordinary shares	(1,290)	(1,290)
Net cash flows (used in)/generated from financing activities	(22,895)	65,473
Net increase in cash and cash equivalents	13,336	29,883
Effects of exchange rate changes	(1,836)	149
Cash and cash equivalents at beginning of year	100,526	68,585
Cash and cash equivalents at end of the period	112,026	98,617

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’s 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 the 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 reporting period.

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. Issues, repurchases, and repayments of debt and equity securities

There were no issues, repurchases 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 2011, was paid on 20 January 2012.

9. Segmental reporting

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

	Burn-in, testing and electronic manufacturing services (Operating segment)		Investment holding segment		Total	
	30/04/2012 RM'000	30/04/2011 RM'000	30/04/2012 RM'000	30/04/2011 RM'000	30/04/2012 RM'000	30/04/2011 RM'000
Revenue income						
Sales to external customers	167,216	186,764	-	-	167,216	186,764
Dividend income	-	-	290	413	290	413
	167,216	186,764	290	413	167,506	187,177
Results						
Segment profit	11,617	18,531	521	2,045	12,138	20,576
Interest income					1,929	783
Finance costs					(2,584)	(2,478)
Profit before tax					11,483	18,881
Income tax expense					(2,934)	(5,439)
Profit net of tax					8,549	13,442

10. Events not reflected in the financial statements

There were no events after the interim period to be reflected in the interim financial statements as at the date of this report.

11. Changes in the composition of the Group

There were no changes in the composition of the Group for the financial year-to-date.

12. Acquisition or disposal of items of property, plant and equipment

During the reporting period, the Group acquired plant and equipment amounted to RM15,807,000 and disposed plant and equipment of net book value amounted to RM385,000.

13. Significant related party transactions

	<u>As at</u> <u>30/04/2012</u> RM'000	<u>As at</u> <u>30/04/2011</u> RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries:		
Management fees charged by Sunright Limited	3,179	3,463
Interest on loan from Sunright Limited	88	88
Sales to:		
- KES Systems & Service (1993) Pte Ltd	384	79
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	799	4,992
- Kestronics (M) Sdn Bhd	2,320	1,656
- KES Systems, Inc.	-	4,095
- KEST Systems & Service Ltd	-	5

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.

14. Significant commitments for purchase of property, plant and equipment

Commitments for purchase of property, plant and equipment amounted to RM6,781,000 as at 30 April 2012.

15. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year Corresponding period
	30/04/2012	30/04/2011	30/04/2012	30/04/2011
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Loss on disposal of property, plant and equipment	-	3	-	44
Fair value loss on investment securities held for trading	-	259	-	-
Plant and equipment written off	16	-	16	1
Inventories written down	300	-	600	-
Loss on disposal on investment securities held for trading	-	-	15	-
Net foreign exchange loss	-	-	-	293
And crediting:				
Gain on disposal of property, plant and equipment	191	-	201	-
Fair value gain on investment securities held for trading	152	-	246	1,320
Gain on disposal on investment securities held for trading	-	312	-	312
Net foreign exchange gain	365	70	2,864	-

There were no gain or loss arising from derivatives, impairment on receivables and exceptional items.

16. Detailed analysis of Group performance

Analysis of the performance for the current quarter

The Group's operating segment comprising revenue from burn-in, testing and electronic manufacturing services decreased by RM0.9 million or 2%, from RM59.5 million in the preceding year's corresponding quarter to RM58.6 million for the current financial quarter ended 30 April 2012 because of lower demand from electronic manufacturing services.

Other income increased from RM0.5 million to RM1.4 million, mainly because the operating segment registered higher net exchange gain by RM0.3 million, arising from appreciation of US Dollars against Ringgit on US Dollars denominated receivables, and reversal of sundry payables of RM0.7 million.

Raw materials and consumables used and changes in work-in-progress were lower by RM2.8 million or 18%, from RM15.0 million to RM12.2 million in the current reporting quarter, mainly because of lower sales from electronic manufacturing services.

Employee benefits expense increased from RM14.1 million to RM17.4 million as a result of increased headcounts to support expanded production capacities.

Finance costs reduced by RM0.2 million or 23% following repayments of loans and borrowings.

In effect, the Group's profit before tax decreased by RM0.6 million or 15%, from RM4.3 million in the preceding year's corresponding quarter to RM3.7 million in the reporting quarter under review.

Analysis of the performance for the current financial year to date

The Group's operating segment reported lower revenue by RM19.6 million or 10%, from RM186.8 million in the preceding year's corresponding period to RM167.2 million for the current financial period ended 30 April 2012. This was attributed to lower demand from burn-in, testing and electronic manufacturing services.

Interest income rose from RM0.8 million to RM1.9 million following an increase in deposits.

Other income increased from RM1.9 million to RM8.4 million in the current period under review. This was primarily due to (i) the operating segment reporting a net exchange gain of RM2.9 million (as opposed to a net exchange loss of RM0.3 million in the corresponding period recognized in "Other expenses") arising from appreciation of US Dollars against Ringgit on US Dollars denominated receivables, (ii) reversal of sundry payables of RM2.2 million, (iii) a RM2.7 million incentive grant given by the China government for technology upgrade, partially offset by (iv) lower fair value gain on investment securities of RM1.1 million recorded by the investment holding segment, following a marginal slide in the stock market index for the current financial period ended 30 April 2012.

Raw materials and consumables used and Changes in work-in-progress decreased by RM9.6 million or 21%, from RM46.0 million to RM36.3 million in the current reporting period, because of lower sales from electronic manufacturing services.

Employee benefits expense increased by RM2.4 million or 5%, from RM44.8 million to RM47.2 million as a result of increased headcounts to support expanded production capacities.

Similarly, depreciation of property, plant and equipment was higher by RM4.6 million or 12%, as a result of expanded production capacities.

16. Detailed analysis of Group performance (cont'd)

Analysis of the performance for the current financial year to date (cont'd)

Other expenses were lower by RM2.0 million or 5% from the preceding year's corresponding period. This was mainly due to lower repair and maintenance as a result of lower machine usage.

In effect, the Group's profit before tax reduced by RM7.4 million or 39%, from RM18.9 million in the preceding year's corresponding period to RM11.5 million in the reporting period under review.

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

The Group achieved profit before tax of RM3.7 million for the current quarter ended 30 April 2012, compared to RM4.4 million in the preceding quarter ended 31 January 2012.

The decrease in profit before tax was the result of

- i) higher employee benefits expense following increased headcounts, offset by
- ii) lower material costs as a result of lower sales from electronic manufacturing services.

18. Prospects

Although the global semiconductor industry is projecting to grow at 3%, from USD307 billion in 2011 to USD316 billion in 2012, it remains volatile given the uncertainties of the global macro economic outlook.

The Group remains watchful on current economic developments and continues to focus on managing costs and productivity.

19. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

20. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter 30/04/2012	Preceding year corresponding quarter 30/04/2011	Current year to date 30/04/2012	Preceding year corresponding quarter 30/04/2011
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,061	797	2,372	4,015
- Foreign tax	762	1,207	3,148	3,131
- Under provision in prior years	(33)	(108)	(33)	(49)
	1,790	1,896	5,487	7,097
Deferred tax				
- Relating to origination and reversal of temporary differences	(851)	(663)	(2,553)	(1,658)
	939	1,233	2,934	5,439

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

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

	As At 30/04/2012	As At 31/07/2011
	RM'000	RM'000
(a) Term loans – secured	62,570	81,669
Term loans – unsecured	1,082	-
Other loan – unsecured	1,374	1,374
	<u>65,026</u>	<u>83,043</u>
(b) Repayable within 12 months	25,079	26,364
Repayable after 12 months	39,947	56,679
	<u>65,026</u>	<u>83,043</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	20,250	51,563
Ringgit Malaysia (“RM”)	44,776	31,480
	<u>65,026</u>	<u>83,043</u>

23. Changes in material litigation

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

24. Dividend

No interim dividend has been declared for the financial quarter ended 30 April 2012.

25. 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 RM6,743,000 and the weighted average number of 43,015,000 ordinary shares outstanding during the reporting period.

26. Realised and unrealised profits

	As at end of current quarter 30/04/2012	As at preceding financial year end 31/07/2011
	RM'000	RM'000
- Realised	187,866	183,061
- Unrealised	9,951	7,554
Total retained profits of the Company and its subsidiaries	197,817	190,615
Consolidation adjustments	(25,263)	(23,514)
Total group retained profits as per consolidated accounts	172,554	167,101

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 24 May 2012