

KESM INDUSTRIES BERHAD
(Incorporated in Malaysia)

Company No : 13022-A

**UNAUDITED SECOND QUARTERLY REPORT ON CONSOLIDATED RESULTS
FOR THE FINANCIAL QUARTER ENDED 31 JANUARY 2012**

The Board of Directors is pleased to announce the following unaudited results of the Group for the financial quarter ended 31 January 2012.

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED 31 JANUARY 2012**

	INDIVIDUAL PERIOD		CUMULATIVE PERIOD	
	CURRENT YEAR QUARTER (31/01/2012) RM'000	PRECEDING YEAR CORRESPONDING QUARTER (31/01/2011) RM'000	CURRENT YEAR TO DATE (31/01/2012) RM'000	PRECEDING YEAR CORRESPONDING PERIOD (31/01/2011) RM'000
Revenue	58,277	63,652	108,634	127,233
Other items of income				
Interest income	741	265	1,340	512
Dividend income	175	300	208	356
Other income	2,392	808	6,953	1,732
Items of expense				
Raw materials and consumables used	(13,665)	(16,908)	(24,240)	(31,089)
Changes in work-in-progress	37	83	155	118
Employee benefits expense	(15,529)	(14,795)	(29,779)	(30,693)
Depreciation of property, plant and equipment	(14,255)	(13,031)	(28,512)	(24,612)
Finance costs	(878)	(995)	(1,812)	(1,481)
Other expenses	(12,910)	(13,463)	(25,167)	(27,535)
Profit before tax	4,385	5,916	7,780	14,541
Income tax expense	(816)	(1,575)	(1,995)	(4,206)
Profit net of tax	3,569	4,341	5,785	10,335
Other comprehensive income:				
Foreign currency translation	890	-	2,723	(39)
Other comprehensive income for the period, net of tax	890	-	2,723	(39)
Total comprehensive income for the period	4,459	4,341	8,508	10,296
Profit attributable to:				
Owners of the parent	3,057	3,313	4,882	7,785
Minority interests	512	1,028	903	2,550
	3,569	4,341	5,785	10,335
Total comprehensive income attributable to:				
Owners of the parent	3,947	3,313	7,605	7,746
Minority interests	512	1,028	903	2,550
	4,459	4,341	8,508	10,296
Earnings per share attributable to owners of the parent (sen per share):				
- Basic	7.1	7.7	11.3	18.1
- Diluted (Note A)	-	7.7	-	18.1

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 2011 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 FINANCIAL POSITION
AS AT 31 JANUARY 2012**

	<u>AS AT END OF CURRENT QUARTER 31/01/2012</u>	<u>AS AT PRECEDING FINANCIAL YEAR END 31/07/2011</u>
	RM'000	RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	151,029	162,768
Deferred tax assets	6,570	5,320
	<u>157,599</u>	<u>168,088</u>
Current assets		
Inventories	20,421	22,999
Trade and other receivables	60,355	67,128
Prepayments	1,465	1,203
Tax recoverable	1,086	1,106
Investment securities	10,245	11,315
Cash and bank balances	110,918	100,526
	<u>204,490</u>	<u>204,277</u>
Total assets	<u>362,089</u>	<u>372,365</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the parent		
Share capital	43,015	43,015
Other reserves	16,935	14,212
Retained earnings	170,693	167,101
	<u>230,643</u>	<u>224,328</u>
Minority interests	23,445	22,542
Total equity	<u>254,088</u>	<u>246,870</u>
Non-current liabilities		
Obligations under finance leases	786	1,634
Long term loans	46,418	56,679
Deferred tax liabilities	2,866	3,296
	<u>50,070</u>	<u>61,609</u>
Current liabilities		
Trade and other payables	29,847	34,911
Obligations under finance leases	1,897	2,165
Term loans	25,540	26,364
Income tax payable	647	446
	<u>57,931</u>	<u>63,886</u>
Total liabilities	<u>108,001</u>	<u>125,495</u>
Total equity and liabilities	<u>362,089</u>	<u>372,365</u>
Net assets per share attributable to owners of the parent (sen)	<u>536.2</u>	<u>521.5</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

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Company No : 13022-A

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED 31 JANUARY 2012**

FY2012	<----- Attributable to owners of the parent ----->							Minority interests	Total equity
	Share capital	<----- Non-distributable ----->				Distributable			
		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	-	-	2,723	-	-	4,882	7,605	903	8,508
Transaction with owners									
Dividend	-	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 January 2012	43,015	663	2,452	12,915	905	170,693	230,643	23,445	254,088

FY2011	<----- Attributable to owners of the parent ----->							Minority interests	Total equity
	Share capital	<----- Non-distributable ----->				Distributable			
		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	-	-	(39)	-	7,785	7,746	2,550	10,296	
Transaction with owners									
Dividend	-	-	-	-	(1,290)	(1,290)	-	(1,290)	
At 31 January 2011	43,015	663	866	12,915	163,409	220,868	20,795	241,663	

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
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Company No : 13022-A

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE QUARTER ENDED 31 JANUARY 2012**

	Current year to date 31/01/2012 RM'000	Preceding year corresponding period 31/01/2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	7,780	14,541
Adjustments for:		
Depreciation of property, plant and equipment	28,512	24,612
(Gain)/loss on disposal of property, plant and equipment	(10)	41
Loss on disposal of investment securities held for trading	15	-
Plant and equipment written off	-	1
Net fair value gain on investment securities held for trading	(94)	(1,579)
Unrealised exchange gain	(764)	(1,227)
Inventories written down	300	-
Dividend income	(208)	(356)
Interest income	(1,340)	(512)
Finance costs	1,812	1,481
Operating cash flows before working capital changes	36,003	37,002
Decrease/(increase) in inventories	2,278	(5,256)
Decrease/(increase) in prepayment, trade and other receivables	6,511	(12,164)
Increase in trade and other payables	(2,051)	(14,639)
Cash generated from operations	42,741	4,943
Income taxes paid	(3,454)	(2,442)
Interest paid	(1,812)	(1,481)
Interest received	1,340	512
Net cash generated from operating activities	38,815	1,532
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	1,149	-
Dividend income	208	356
Purchase of property, plant and equipment	(12,402)	(53,456)
Proceeds from disposal of property, plant and equipment	378	833
Net cash used in investing activities	(10,667)	(52,267)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of obligations under finance leases	(1,116)	(1,120)
Repayment of term loans	(15,014)	(8,228)
Proceeds from term loans	1,492	64,688
Dividend paid on ordinary shares	(1,290)	(1,290)
Net cash flows (used in)/generated from financing activities	(15,928)	54,050
Net increase in cash and cash equivalents	12,220	3,315
Effects of exchange rate changes	(1,828)	176
Cash and cash equivalents at beginning of year	100,526	68,585
Cash and cash equivalents at end of the period	110,918	72,076

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	
	31/01/2012 RM'000	31/01/2011 RM'000	31/01/2012 RM'000	31/01/2011 RM'000	31/01/2012 RM'000	31/01/2011 RM'000
Revenue income						
Sales to external customers	108,634	127,233	-	-	108,634	127,233
Dividend income	-	-	208	356	208	356
	108,634	127,233	208	356	108,842	127,589
Results						
Segment profit	7,965	13,573	287	1,937	8,252	15,510
Interest income					1,340	512
Finance costs					(1,812)	(1,481)
Profit before tax					7,780	14,541
Income tax expense					(1,995)	(4,206)
Profit net of tax					5,785	10,335

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 RM12,590,000 and disposed plant and equipment of net book value amounted to RM368,000.

13. Significant related party transactions

	<u>As at</u> <u>31/01/2012</u> RM'000	<u>As at</u> <u>31/01/2011</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	2,480	2,119
Interest on loan from Sunright Limited	58	58
Sales to:		
- KES Systems & Service (1993) Pte Ltd	372	36
Purchases from:		
- KES Systems & Service (1993) Pte Ltd	658	4,938
- Kestronics (M) Sdn Bhd	2,292	1,095
- KES Systems, Inc.	-	4,097
- 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 RM7,083,000 as at 31 January 2012.

15. Profit before tax

	Individual period		Cumulative period	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year Corresponding period
	31/01/2012	31/01/2011	31/01/2012	31/01/2011
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:				
After charging:				
Loss on disposal of property, plant and equipment	-	41	-	41
Plant and equipment written off	-	1	-	1
Inventories written down	300	-	300	-
Loss on disposal on investment securities held for trading	-	-	15	-
Net foreign exchange loss	-	-	-	363
And crediting:				
Gain on disposal of property, plant and equipment	6	-	10	-
Fair value gain on investment securities held for trading	712	331	94	1,579
Net foreign exchange gain	955	400	2,499	-

There were no gain or loss on derivatives 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 RM5.4 million, from RM63.7 million in the preceding year's corresponding quarter to RM58.3 million for the current financial quarter ended 31 January 2012, because of lower demand.

Other income increased from RM0.8 million to RM2.4 million, as the operating segment registered: (i) higher net exchange gain by RM0.6 million, arising from appreciation of US Dollars against Ringgit on US Dollars denominated receivables, and (ii) reversal of sundry payables of RM0.7 million, whilst (iii) investment holding segment reported higher fair value gain on investment securities by RM0.4 million, compared to preceding year's corresponding quarter.

Raw materials and consumables used and changes in work-in-progress were lower by RM3.2 million or 19%, from RM16.8 million to RM13.6 million in the current reporting quarter, mainly because of lower electronic manufacturing services sales.

Similarly, depreciation of property, plant and equipment was higher by RM1.2 million or 9%, as a result of expanded capacity in burn-in and testing services.

In effect, the Group's profit before tax decreased by RM1.5 million or 26%, from RM5.9 million in the preceding year's corresponding quarter to RM4.4 million in the current reporting quarter under review.

Analysis of the performance for the current financial year-to-date

The Group's operating segment reported lower revenue by RM18.6 million, from RM127.2 million in the preceding year's corresponding period to RM108.6 million for the current financial period ended 31 January 2012. This was attributed to lower demand.

Other income increased from RM1.7 million to RM7.0 million in the current period under review. This was primarily due to (i) the operating segment reporting a net exchange gain of RM2.5 million (as opposed to a net exchange loss of RM0.4 million in the corresponding period recognized in "Other expenses") arising from appreciation of US Dollars against Ringgit on US Dollars denominated receivables, (ii) RM2.7 million incentive grant given by the China government for technology upgrade, (iii) reversal of sundry payables of RM1.4 million, partially offset by lower fair value gain on investment securities of RM1.5 million recorded by the investment holding segment, following a marginal slide in the stock market index for the current financial period ended 31 January 2012.

Raw materials and consumables used and Changes in work-in-progress decreased by RM6.9 million or 22%, from RM31.0 million to RM24.1 million in the current reporting period, because of lower electronic manufacturing services sales.

Depreciation of property, plant and equipment was higher by RM3.9 million or 16%, as a result of expanded capacity in burn-in and testing services.

Other expenses were lower by RM2.4 million from the preceding year's corresponding period. This was mainly due to lower repair and maintenance as a result of lower machine usage.

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

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

In effect, the Group's profit before tax reduced by RM6.8 million or 46%, from RM14.5 million in the preceding year's corresponding period to RM7.8 million in the current 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 RM4.4 million for the current quarter ended 31 January 2012, compared to RM3.4 million in the preceding quarter ended 31 October 2011. This represented an increase of RM1.0 million or 29%.

The improvement in profit before tax was the result of:

- i) improved demand for its testing and electronic manufacturing services;
- ii) fair value gain on investment securities held for trading; offset by
- iii) higher labour and material consumption on the back of improved sales;
- iv) lower net exchange gain arising from lower net US Dollars denominated receivables;
- v) absence of one-off gain of RM2.7 million incentive grant in the preceding quarter, given by the China government for technology upgrade.

18. Prospects

The global semiconductor industry has projected a year-on-year revenue growth of 2.2% to USD309 billion in 2012. This modest projection was made in response to the softening global demand arising from continued uncertainties over the future of the Eurozone, alongside the inventory correction, manufacturing oversupply and natural disasters.

With uncertainty clouding the outlook of the world's economic recovery, the Group continues to focus on cost management and productivity improvements.

19. Profit forecast / profit guarantee

The Group was not subjected to any profit guarantee.

20. Taxation

	Individual Quarter		Cumulative Quarter	
	Current year quarter	Preceding year corresponding quarter	Current year to date	Preceding year corresponding quarter
	31/01/2012	31/01/2011	31/01/2012	31/01/2011
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	752	1,328	1,311	3,218
- Foreign tax	931	1,242	2,386	1,924
- Under provision in prior years	-	-	-	59
	1,683	2,570	3,697	5,201
Deferred tax				
- Relating to origination and reversal of temporary differences	(867)	(995)	(1,702)	(995)
	816	1,575	1,995	4,206

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	As At
	31/01/2012	31/07/2011
	RM'000	RM'000
(a) Term loans – secured	69,092	81,669
Term loans – unsecured	1,492	-
Other loan – unsecured	1,374	1,374
	<u>71,958</u>	<u>83,043</u>
(b) Repayable within 12 months	25,540	26,364
Repayable after 12 months	46,418	56,679
	<u>71,958</u>	<u>83,043</u>
(c) Loans denominated in:		
United States Dollar (“USD”)	48,971	51,563
Ringgit Malaysia (“RM”)	22,987	31,480
	<u>71,958</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 31 January 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 RM4,882,000 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 31/01/2012	As at preceding financial year end 31/07/2011
	RM'000	RM'000
- Realised	186,719	183,061
- Unrealised	8,382	7,554
Total retained profits of the Company and its subsidiaries	195,101	190,615
Consolidation adjustments	(24,408)	(23,514)
Total group retained profits as per consolidated accounts	170,693	167,101

BY ORDER OF THE BOARD

Leong Oi Wah
Company Secretary

Petaling Jaya
Date : 08 March 2012