

KESM INDUSTRIES BERHAD

(13022-A)

A Member Of



ANNUAL REPORT 2005

KESM, an international award winning Company

Shipped over 1 billion chips

Approved by United States Defense
(DSCC)

Certified by BVQI-Car Quality Standard
(TS 16949)

Recognised by ISO 9000

Managed by 1,000 motivated and
committed employees

Chairman's Statement



Dear Fellow Shareholders

In financial year 2005, KESM achieved yet another record year. We set unit shipment records. We grew our revenues and posted profitability growth with a solid balance sheet. This is the result of our strategic investments in the right market opportunities, brighter prospects in the semiconductor industry and the effective execution by the management in working closely with our customers to support their changing needs. We achieved new “highs” in

- ▲ Revenues - RM181 million
- ▲ Net earnings - RM14 million or RM33 sens per share
- ▲ Net worth - RM121 million

Current Year Development

We continued to achieve strong profits. We built up a cash reserve amounting to RM55 million, increasing our net worth by 12%. We spent RM43 million in capital investments, totaling RM150 million in the past three years. This amount has exceeded our 5-year investment plan of RM100 million which was announced in January 2003. Nevertheless, we were able to fund the entire growth of KESM through our working capital and debt without capital raising exercises. This is remarkable given the high volatility of the semiconductor industry. Our stock was re-classified from “industrial products” to the “technology” sector to better reflect our advanced manufacturing services and capabilities in Malaysia.

The production volumes of our customers fluctuate week to week. Our management team responded swiftly to the needs of our customers' changes in production demands. They were quick to identify opportunities and made a good recovery of our investments on poor utilization of certain equipment and at the same time increased capacity for unexpected increase in other business demands.

We further improved our performance with customers by tracking and comparing with aggressive improvement goals. We are gratified by their compliments, in particular our "on-line" factory quality and inventory management system. We track every production lot on real time basis and the information is globally available to our customers.

Business Outlook

According to Gartner Inc., the semiconductor industry will continue to grow to new record levels from 6.5% in 2006 to 14.7% in 2008.

We will continue to pursue our focus on high growth market opportunities such as hand phones, PCs and cars. These products are constantly improving to meet the changes in consumer lifestyle. KESM's customers are leaders in design and manufacturing of semiconductor chips. These chips must perform reliably and in some cases, operate in extreme environments, such as in the engine compartment of a car. KESM provides a comprehensive service to electrically stress these chips at high temperatures. This process is called "burn-in and test" and the purpose is to weed out potentially weak devices. The chips go through a final "testing" process to ensure they function properly. Only the "strongest" and "fittest" of the chips are returned to our customers to make electronic products assembled in mobile phones, PDAs, MP3 etc. All these new products bring opportunities to KESM. We will work closely with our customers to invest in equipment

requiring a new generation of technology. We will continue to grow our "testing" services. We believe the greatest opportunities are still ahead of us in the PC, communication and automotive markets for the future.

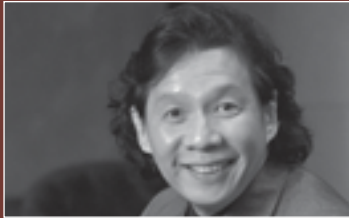
We ended the year with double digit revenue gains. We are operating in the bright spots of the industry and the growth forecast for CY 2006 remains good. During the past three years, we have invested more than we planned. We recognized that further investments are necessary to maintain our leadership position in the market. Given the priorities, the Board conscientiously reviewed its dividend policy and recommended a first and final tax exempt dividend of 1.75%, amounting to approximately RM753,000 in respect of the financial year ended 31 July 2005. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the dividend will be paid on 23 January 2006.

On behalf of the members of the Board, we would like to thank all our business partners and shareholders for their continued support. I would also like to extend my sincere appreciation to the management and employees for their dedication and contributions to the Group. Together, we can work towards maintaining KESM's leadership in the industry.

Samuel Lim Syn Soo

Executive Chairman
3rd October 2005

Board of Directors



MR. SAMUEL LIM SYN SOO

Aged 51, Singaporean
Non-Independent Executive Director

Mr. Samuel Lim is the Executive Chairman and Chief Executive Officer of the Company and has been on the Board since 6 September 1986. He is also a member of the Option Committee. Mr. Lim co-founded and led the Company to become Malaysia's largest independent provider of burn-in and testing services.

Mr. Lim has more than 35 years of experience in the semiconductor and electronics industry. Prior to KESM Industries Berhad, Mr. Lim held various senior positions in engineering, manufacturing and marketing at several multinational companies. As one of the local pioneers in the semiconductor industry, Mr. Lim also invented solutions to "Burn-in and test" of individual chips and was awarded three patents. He also sits on the Board of all the companies in Sunright Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited.

Mr. Lim holds a Diploma in Industrial Engineering (Canada) and was a registered engineer with the WOFAC Association.

Mr. Lim's holdings in the securities of the Company are as follows: -

	Direct Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	Nil	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)
Share options of RM1.00 each	204,000	Nil



MR. KENNETH TAN TEOH KHOON

Aged 48, Singaporean
Non-Independent Executive Director

Mr. Tan was appointed to the Board on 20 January 1992. He is responsible for the strategic direction and new business initiatives of the Group, and the management of the Group's financial, corporate and investor relations. He is also a member of the Audit Committee and Option Committee of the Company.

Mr. Tan graduated with a Bachelor of Accountancy degree from the National University of Singapore and was a member of the Institute of Chartered Secretaries and Administrators, United Kingdom. He has been admitted as a Fellow of the Institute of Certified Public Accountants of Singapore.

Prior to joining the Group in 1987, he worked in an international accounting firm, a major property group in Singapore and subsequently in a diversified multinational group in the manufacturing and packaging industries.

Mr. Tan is currently an executive director of Sunright Limited and also sits on the Board of several other private limited companies in Singapore, Hong Kong, Malaysia, Taiwan, China, Philippines and USA.

Mr. Tan's holdings in the securities of the Company are as follows: -

	Direct Shareholdings	Indirect Shareholdings
Share options of RM1.00 each	204,000	Nil



MS. LIM MEE ING

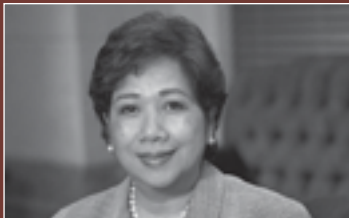
Aged 54, Singaporean
Non-Independent Non-Executive Director

Ms. Lim was appointed to the Board on 19 February 1990. She holds a Diploma from the Institute of Bankers, and has more than 18 years of working experience in the banking profession before her retirement in 1990. From 1973 to 1990, she worked with the Singapore Branch of Barclays Bank PLC in various senior positions. Prior to her exit, she was responsible for marketing the global securities and custodian services of the bank.

Ms. Lim was also a director of Barclays Bank (S) Nominees Pte Ltd from September 1982 to March 1990. She was a member of the Committee on Securities Industry of the Association of Banks in Singapore from September 1987 to March 1990.

Ms. Lim is currently a non-executive director of Sunright Limited and also sits on the Board of several other private limited companies in Singapore and China.

Board of Directors



DATO' DR. NORRAESAH HAJI MOHAMAD

Aged 57, Malaysian

Independent Non-Executive Director

Dato' Dr. Norraesah was appointed to the Board on 20 October 1991. She is also the Chairman of the Audit Committee of the Company. Dato' Dr. Norraesah holds a Doctorate Degree in Economics Science (International Economics and Finance) from the University of Paris I, Pantheon-Sorbonne, France in 1986. She has over 31 years of working experience in banking, consultancy and international trade and commerce.

Dato' Dr. Norraesah worked with the International Trade Division of the Ministry of Trade and Industry (now known as the Ministry of International Trade and Industry) from 1972 to 1985, starting as an Assistant Director and later promoted to Senior Assistant Director. Between October 1987 to September 1988, she was with the Finance Division of the Federal Treasury holding the post of Principal Assistant Secretary. From October 1988 to October 1990, she was the Communication Manager of ESSO Production Malaysia Inc. and subsequently, took the position of Managing Director with a consultant firm providing financial advisory services. From 1991 to 1998, she was appointed as the Chief Representative of Credit Lyonnais Bank in Malaysia. She assumed the position of Chairman of Bank Rakyat from 2000 to 2003.

She is currently the Chairman of Alcatel Network Systems (Malaysia) Sdn Bhd and also sits on the Boards of Siah Brothers Corporation Berhad and Malaysian Oxygen Berhad, both companies are listed on the Main Board of Bursa Malaysia Securities Berhad, and several other private limited companies in Malaysia.

Dato' Dr. Norraesah's holdings in the securities of the Company are as follows: -

	Direct Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	7,500	605,500



ENCIK AHMAD RIZA BIN BASIR

Aged 45, Malaysian

Independent Non-Executive Director

Encik Ahmad Riza Bin Basir is a lawyer by training. He graduated with Bachelor of Arts in Law (Honours) degree from University of Hertfordshire, United Kingdom and Barrister At Law (Lincoln's Inn), London in 1984 and was called to the Malaysian Bar in 1986. He is currently the Chairman of Fima Corporation Berhad and Syarikat Kayu Wangi Berhad. In addition, he is the Group Managing Director of Kumpulan Fima Berhad, a Director of

Jerneh Asia Berhad, Manulife Insurance (Malaysia) Berhad (formerly known as John Hancock Life Insurance (M) Berhad) and United Plantations Berhad (all listed on Bursa Malaysia Securities Berhad). He also sits on the Boards of several other private limited companies in Malaysia.

**TUAN HAJI ZAKARIAH BIN YET, AMS, AMN**

Aged 50, Malaysian

Non-Independent Non-Executive Director

Tuan Haji Zakariah has been serving as a member of the Board on 27 January 1995, as a representative of Lembaga Tabung Haji.

He has been with Lembaga Tabung Haji since 1979 and has served in several departments, including Finance, Administration, Investment and Branch Office operation.

In addition, he has wide experience in the private sector, holding important positions in two subsidiaries of Lembaga Tabung Haji which among others were as the Deputy Chief Executive Officer of TH Global Services Sdn Bhd from 16 June 2001 to 31 August 2002; Senior General Manager and Acting Chief Executive Officer of TH Travel & Services Sdn Bhd from 1 September 2002 to 16 August 2004. He was also a Board member at Urus Bina Sdn Bhd from 1994 to 1995.

Currently, Tuan Haji Zakariah is attached at Lembaga Tabung Haji as the General Manager of Human Resource Development and Quality Department.

He has a Diploma in Banking Studies from ITM and a Post Graduate Diploma in Engineering Business Management from UTM. He then undertook a twinning programme at Warwick University, United Kingdom and attained a Master of Science in Engineering Business Management.

**MR. YONG CHEE HOU**

Aged 49, Malaysian

Independent Non-Executive Director

Mr. Yong was appointed to the Board on 11 January 2002 and is also a member of the Audit Committee of the Company. He graduated from the University of Hull, United Kingdom with a Bachelor of Science (Hons) Degree in Economics and Accounting and qualified as a member of the Institute of Chartered Accountants in England and Wales. He is a member of Malaysian Institute of Accountants. He has spent over 9 years in accountancy profession. Mr. Yong is also a director of a private limited company.

Other Information on Directors

1. FAMILY RELATIONSHIP

None of the Directors have any family relationship with other Directors except for Ms. Lim Mee Ing, who is the spouse of Mr. Samuel Lim.

2. CONFLICT OF INTEREST

None of the Directors have any conflict of interest with the Company except for Messrs Samuel Lim, Kenneth Tan, Lim Mee Ing and Dato' Dr. Norraesah Haji Mohamad who are deemed to be interested in any transactions or contracts that the Group made or proposed to make with Sunright Group.

3. CONVICTIONS OF OFFENCES

None of the Directors have been convicted of any offence within the past ten (10) years other than traffic offence, if any.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2005

Name of Directors	No. of Meetings Attended	Percentage %
Mr. Samuel Lim Syn Soo	6 out of 6	100
Mr. Kenneth Tan Teoh Khoon	6 out of 6	100
Ms. Lim Mee Ing	5 out of 6	83
Dato' Dr. Norraesah Haji Mohamad	5 out of 6	83
Encik Ahmad Riza Bin Basir	5 out of 6	83
Tuan Haji Zakariah Bin Yet	6 out of 6	100
Mr. Yong Chee Hou	6 out of 6	100

Corporate Information

BOARD OF DIRECTORS

Mr. Samuel Lim Syn Soo
Executive Chairman & Chief Executive Officer

Mr. Kenneth Tan Teoh Khoon
Executive Director

Ms. Lim Mee Ing
Non-Independent Non-Executive Director

Dato' Dr. Norraesah Haji Mohamad
Independent Non-Executive Director

Encik Ahmad Riza Bin Basir
Independent Non-Executive Director

Tuan Haji Zakariah Bin Yet
Non-Independent Non-Executive Director

Mr. Yong Chee Hou
Independent Non-Executive Director

AUDIT COMMITTEE

Dato' Dr. Norraesah Haji Mohamad
Chairman

Mr. Kenneth Tan Teoh Khoon
Member

Encik Ahmad Riza Bin Basir
Member

Mr. Yong Chee Hou
Member

COMPANY SECRETARY

Ms. Leong Oi Wah (MAICSA 7023802)

REGISTERED OFFICE

312, 3rd Floor
Block C, Kelana Square
17, Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel: 03-7803 1126/7806 2116
Fax: 03-7806 1387/7806 1261

REGISTRARS

Symphony Share Registrars Sdn Bhd
Level 26, Menara Multi Purpose Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur
MALAYSIA
Tel: 03-2721 2222
Fax: 03-2721 2530/31

AUDITORS

Ernst & Young
Chartered Accountants
Level 23A, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
MALAYSIA

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Second Board

STOCK NAME

KESM

BURSA SECURITIES STOCK NO.

9334

Audit Committee's Report

The Audit Committee ("the Committee") of KESM Industries Berhad is pleased to present the Audit Committee's Report for the financial year ended 31 July 2005 ("Year 2005").

MEMBERS OF THE AUDIT COMMITTEE

The Committee currently comprises the following directors: -

Chairman	: Dato' Dr. Norraesah Haji Mohamad	<i>Independent Non-Executive Director</i>
Members	: Mr. Kenneth Tan Teoh Khoon	<i>Executive Director</i>
	: Encik Ahmad Riza Bin Basir	<i>Independent Non-Executive Director</i>
	: Mr. Yong Chee Hou	<i>Independent Non-Executive Director</i>

The Committee is governed by the Terms of Reference as set out in pages 12 to 15 of this Annual Report.

MEETINGS DURING THE YEAR

The Committee met five (5) times in Year 2005. Other Board members, senior management staff and the company secretary may attend the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

The meeting attendance record of the Committee members is as follows:

Name of Member	Designation	No. of Meetings held during the year	No. of Meetings attended	Percentage %
Dato' Dr. Norraesah Haji Mohamad	Chairman	5	4	80
Mr. Kenneth Tan Teoh Khoon	Member	5	5	100
Encik Ahmad Riza Bin Basir	Member	5	4	80
Mr. Yong Chee Hou	Member	5	5	100

Audit Committee's Report

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During Year 2005, the Committee: -

1. reviewed the external auditors' reports in relation to the audit for the year ended 31 July 2004.
2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2004 to be presented to the Board of Directors for approval.
3. recommended the re-appointment of the external auditors.
4. reviewed, discussed and recommended the unaudited quarterly results of the Group to be presented to the Board of Directors for approval.
5. reviewed and recommended related party transactions of the Group to be presented to the Board of Directors for ratification and approval.
6. reviewed and discussed the internal auditor's reports.
7. reviewed the Committee's Report in respect of the financial year ended 31 July 2004 and presented to the Board of Directors for approval.
8. recommended the appointment of Messrs Deloitte KassimChan as internal auditors of the Group with effect from Year 2005.

INTERNAL AUDIT ACTIVITIES

During the financial year, the internal auditors presented the audit reports in relation to the internal audit activities carried out according to the internal audit plan, which have been approved by the Committee. To monitor and ensure that audit recommendations have been effectively implemented, follow-up audit reviews reports on prior years' audits were also presented to the Committee.

EXECUTIVES' SHARE OPTION SCHEME ("ESOS")

In accordance with the requirements of Bursa Malaysia Securities Berhad and pursuant to the ESOS for Year 2005, the grant of 168,000 share options in March 2005 to eligible executives were accurately offered.

A verification exercise was carried out for Year 2005 and the Committee is satisfied that the allocation of the above share options has complied with the criteria set out in the bye-laws of the ESOS.

Terms of Reference of Audit Committee

1. CONSTITUTION

The Board has, on 19 September 2005, resolved to adopt these Revised Terms of Reference, for the Committee to carry out the responsibilities and functions prescribed in Part C of Chapter 15 of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

2. COMPOSITION/QUORUM

The Committee shall be appointed by the Board from amongst the Directors of the Company and shall consist of not less than 3 members, of which the majority shall be Independent Directors of the Company; and at least one member of the Committee: -

- a) must be a member of the Malaysian Institute of Accountants; or
- b) if he/she is not a member of the Malaysian Institute of Accountants, he/she must have at least 3 years’ working experience and: -
 - (i) he/she must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
 - (ii) he/she must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967; or
 - (iii) fulfils such other requirements as prescribed by Bursa Securities.

In the event that a member of the Committee resigns, dies or for any other reason ceases to be a member resulting in non-compliance of any of the requirements above, the Board shall, within 3 months of that event, appoint such number of new members as may be required to fill the vacancy.

Alternate Directors shall not be appointed as members of the Committee.

3. TERMS OF MEMBERSHIP

Members of the Committee shall be appointed for an initial term of 3 years after which they will be eligible for re-appointment.

The appointment and performance of the members shall be subject to review by the Board at least once every 3 years to determine whether such members have carried out their duties in accordance with these terms of reference.

4. CHAIRMAN

The members shall elect a Chairman from among their number who shall be an Independent Director.

Terms of Reference of Audit Committee

5. SECRETARY

The Company Secretary or his or her nominee shall be the Secretary of the Committee. In his or her absence, the Chairman shall appoint the Secretary.

6. MEETINGS

The Committee shall meet at least four times a year.

The notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be forwarded to each member of the Committee and any other persons who may be required to attend, not fewer than 3 days prior to the date of the meeting.

In addition, the Committee Chairman may convene a meeting of the Committee if requested to do so by any member, or the internal or external auditors to consider any matter within the scope and responsibilities of the Committee or at the Committee Chairman's discretion.

Meetings of the Committee shall be held at any place within or out of Malaysia.

Members of the Committee may participate in a meeting of the Committee by means of telephone or other electronic means and all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

The Committee may establish any regulations from time to time to govern its administration.

7. ATTENDANCE AT MEETINGS

The quorum for meetings of the Committee shall consist of 2 members of which the majority present must be Independent Directors.

In the absence of the Committee Chairman and/or appointed deputy, the remaining members present shall elect one of their number to chair the meeting.

The head of finance, the head of internal audit (where such a function exists), and a representative of the external auditors shall normally attend meetings. The Committee may invite other Board members or any person to be in attendance to assist it in its deliberations. However, at least once a year the Committee shall meet with the external auditors without executive Board members present whenever deemed necessary.

8. RESOLUTIONS IN WRITING

A resolution in writing signed whether in original or by facsimile, by the requisite members of the Committee who are sufficient to form a quorum, shall be as valid and effectual as if it had been passed at a meeting of the Committee duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more members.

Terms of Reference of Audit Committee

9. AUTHORITY AND RIGHTS

The Committee is authorised by the Board to investigate any activity within its terms of reference and shall:-

- a) have authority to investigate any matter within its terms of reference;
- b) have the resources which are required to perform its duties;
- c) have full and unrestricted access to any information pertaining to the Company and its subsidiaries;
- d) have direct communication channels with the external auditors and person(s) carrying out the internal audit function or activity (if any);
- e) be able to obtain independent professional or other advice and to secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary. In practice, should any expenditure in connection therewith be expected to exceed RM30,000 in total, the Committee should consult with the Chairman of the Board, or the Board, before proceeding;
- f) be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Committee, whenever deemed necessary;
- g) have the authority to report any matter to Bursa Securities if it is of the view that a matter reported by it to the Board has not been satisfactorily resolved resulting in a breach of the Listing Requirements.

10. DUTIES

The functions of the Committee are to assist the Board to fulfil its responsibilities in relation to the Group's financial reporting and to examine the adequacy of the Group's internal control systems and corporate governance.

The duties of the Committee shall be: -

- (1) to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).
- (2) to review the external auditor's management letter and management response.
- (3) review the following and report the same to the Board :-
 - (a) with the external auditor, the audit plan, scope and nature of audit for the Company and of the Group, and ensure co-ordination where more than one audit firm is involved;
 - (b) with the external auditor, his evaluation of the system of internal controls of the Company and of the Group;
 - (c) with the external auditor, his audit report, and any matter the external auditor may wish to discuss (in the absence of management where necessary);
 - (d) the assistance given by the employees to the external and internal auditors;
 - (e) the adequacy of the scope, functions and resources of the internal audit functions and that it has the necessary authority to carry out its work;

Terms of Reference of Audit Committee

- (f) the internal audit programme, processes, results of the internal audit programme, processes or investigation undertaken and whether or not appropriate action is taken on the recommendation of the internal audit function;
 - (g) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:-
 - (i) changes in or implementation of major accounting policy or practice changes;
 - (ii) significant and unusual events;
 - (iii) significant audit adjustments arising from the audit;
 - (iv) the going concern assumption; and
 - (v) compliance with accounting standards, stock exchange and other legal requirements;
 - (h) any related party transaction and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity;
 - (i) any letter of resignation from the external auditors of the Company;
 - (j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment; and
- (4) consider the major findings of internal investigations and management's response.
 - (5) recommend the nomination of a person or persons as external auditor.
 - (6) convene a meeting of the Committee to consider any matter the external auditor believes should be brought to the attention of the directors or shareholders.
 - (7) ensure that the Committee Chairman attends the Annual General Meetings to respond to any shareholder questions on the Committee's report and activities; and
 - (8) to undertake such other responsibilities as may be agreed to by the Board, or as may be required by law or the Listing Requirements of Bursa Securities.

11. REPORTING PROCEDURE

- 11.1 The Secretary shall be responsible for keeping the minutes of meeting of the Committee, circulating them to the members, the Board and the auditors who attended the meeting, and for ensuring compliance with Bursa Securities requirements. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.
- 11.2 The Committee shall submit a report to the Board as at the end of each financial year within 3 months from the said date to the Board for inclusion in the Company's annual report. The report of the Committee shall comprise paragraphs 15.16(3)(a) to (e) of the Listing Requirements of Bursa Securities.

Corporate Governance Statement

The Board of Directors (“the Board”) is committed to ensuring that good corporate governance practice is observed throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group. Hence, the Board will continue to evaluate the Group’s corporate governance procedures, introduce various measures and implement the best practices in so far as they are relevant to the Group, bearing in mind the nature of the Group’s businesses and the size of its business operations.

The statement below sets out how the Group has applied the Principles of the Malaysian Code of Corporate Governance (“the Code”) and the extent of compliance with the Best Practices of good corporate governance as set out in Part 1 and Part 2 of the Code.

BOARD OF DIRECTORS

Board Composition and Balance

The Company is led and managed by an experienced Board comprising members with a good mix of the necessary knowledge, skills and wide range of experience relevant to the Group.

As at the date of this report, the Board comprises seven (7) directors, five (5) of whom are non-executive. Of the non-executive directors, three (3) are independent. A brief description of the background of each director is presented on pages 4 to 7 of this Annual Report.

The Board is satisfied that the current Board composition fairly reflects the investment of minority shareholders in the Company.

The role of the Chairman and Chief Executive Officer (“CEO”) are not separated. Although the roles are combined, the Board is of the view that there are sufficient independent directors on the Board to ensure fair and objective deliberations at board meetings and who are capable of exercising independent judgements. The Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed, interested. All related party transactions involving him are dealt with in accordance with the provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”). Moreover, the senior independent non-executive director, Dato’ Dr. Norraesah Haji Mohamad, is available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman/CEO.

The Board is of the opinion that its current composition and size constitute an effective Board to the Company.

Re-election

In accordance with the Company’s Articles of Association, one third of the Board is required to retire at every Annual General Meeting (“AGM”) and be subject to re-election by shareholders. Newly appointed directors shall hold office until the next following AGM and shall then be eligible for re-election by shareholders.

Corporate Governance Statement

Board Meetings

The Board meets on a scheduled basis, at least five (5) times a year to approve quarterly and annual financial results, recurrent related party transactions, annual budgets and any other matters that require the Board's approval. Due notice is given for all scheduled meetings.

During the year under review, the Board had met on a total of six (6) occasions. The attendance of each individual director at these meetings are set out on page 8 of this Annual Report. All directors attended more than 50% of the Board meetings.

The Board is fully aware and acts on its specifically reserved matters for decision to ensure that the direction of the Company is firmly in its hands. During the year under review, the Board also resolved and approved the Company's matters through circular resolutions. Board members are provided with sufficient detailed information to facilitate their approvals.

DIRECTORS' TRAINING

All the Directors had completed the Mandatory Accreditation Program prescribed by the Listing Requirements of Bursa Securities and will attend any other training deemed appropriate, to further enhance their skills and knowledge to assist in discharging their duties.

The Directors will continue to attend the Continuing Education Programme ("CEP") and will endeavour to obtain 72 CEP points by 31 December 2005. As the CEP has been repealed with effect from 1 January 2005, the Board of Directors will assess the training needs of the Directors and ensure fulfillment of such training deemed appropriate by the Board of Director.

From time to time during the normal proceedings of the meetings, the Directors also receive further briefings particularly on relevant new laws and regulations from the management, company secretaries and auditors.

SUPPLY OF INFORMATION

The Chairman ensures that all Directors have full and unrestricted access to timely information, necessary in the furtherance of their duties.

Prior to each Board and Audit Committee meeting, every director is given an agenda and a set of papers containing reports and information relevant to the agenda items to facilitate active participation and informed decision making. The papers are issued in sufficient time to enable the directors to obtain further information and explanations, where necessary, so that they are properly briefed before the meetings. At each meeting, apart from receiving financial-oriented information from the management, the Board is also kept updated on the activities, operations and other performance factors affecting the Group's business and performance. Matters requiring any decision are in practice thoroughly discussed and deliberated by the Board. There is active and unrestricted participation by independent directors in the deliberations and decisions of the Board. All directors can and do have opportunity to call for additional clarification and information to assist them in their decision-making.

Every director has full access to the advice and services of the company secretaries and where required and in appropriate circumstances, is able to take professional advice at the Company's expense.

Corporate Governance Statement

DIRECTORS' NOMINATION

The Code recommends the setting up of a Nominating Committee (“NC”) to undertake the responsibility of administering a formal and transparent process for Director appointment and assessment of Board. The Company did not establish a NC as the Board itself can fulfill the role of NC.

Almost all the Directors have been in the Board since 1994 and are closely identified with the Group’s business and success individually and collectively. The Directors have been able to effectively and capably execute their responsibilities, thus enabling the Group to grow over the years. The contribution and performance of each Director are apparent to the other Directors. At such time that the Board finds it requires new members to improve its working and quality, the Board would find suitable candidates and make appropriate recommendation.

DIRECTORS' REMUNERATION

The Board did not establish a Remuneration Committee (“RC”) as recommended by the Code. The Board itself can fulfill the role of RC and will deliberate on the remuneration of directors during the normal proceedings of the meeting of directors.

The Board, as a whole, determines the remuneration of the directors with individual director abstaining from deliberations and voting on the decision in respect of his individual remuneration.

All directors are paid directors’ fees as approved by the shareholders at AGM, based on the recommendation of the Board. For the year under review, none of the directors received fees of more than RM50,000 each.

As a guide, the Company seeks out prevailing market practices to determine the remuneration packages for directors. Details of directors’ remuneration are set out on page 43 of this Annual Report.

AUDIT COMMITTEE

The composition and terms of reference of this Committee together with its report are set out on pages 12 to 15 of this Annual Report.

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is outsourced to a reputable international accounting/audit firm. The responsibilities of the internal auditors include conducting audits, submitting findings and the provision of independent report to the Audit Committee on the Group’s systems of internal control. Being an independent function, the audit work is conducted with impartiality, proficiency and due professional care.

Details of the activities carried out by the internal auditors during the year under review are stated on page 11 of this Annual Report.

Corporate Governance Statement

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to provide and present a balanced and meaningful assessment of the Company's and of the Group's financial position and prospects in the annual financial statements, quarterly results announcements as well as the Chairman's statement in the annual report. The Board is assisted by the Audit Committee to oversee the Group's financial reporting processes and the quality of its financial reporting.

Directors' Responsibility For Preparing The Financial Statements

The Directors are required by the Companies Act, 1965 to prepare financial statements for each financial year which have been made out in accordance with the applicable approved accounting standards and give a true and fair view of the state of affairs of the Group and of the Company and of the results and cash flows for that year and cash flows of the Group and of the Company for the financial year then ended.

In preparing the financial statements, the Directors have :

- selected suitable accounting policies and applied them consistently;
- made reasonable and prudent judgements and estimates; and
- ensured that all applicable accounting standards have been followed.

The Directors have ensured the Group and the Company keeps proper accounting and other records which disclose with reasonable accuracy the financial position of the Group and of the Company and which enable them to ensure that the financial statements are drawn up to comply with the Companies Act, 1965.

The Directors also have a general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Internal Control

The Statement on Internal Control presented on pages 22 to 23 of this Annual Report provides an overview of the state of internal controls within the Group.

Relationship with the Auditors

The Company has always maintains a transparent relationship with its external auditors in seeking their professional advice and ensuring compliance with the accounting standards in Malaysia. The role of the Audit Committee in relation to the external auditors is described on page 11.

Corporate Governance Statement

RELATIONS WITH SHAREHOLDERS

The Company maintains communication with its shareholders and investors to keep them informed of all major developments and performance of the Group through timely quarterly results announcements and various disclosures and announcements made to the Exchange via the Bursa Link, press releases, Company's annual reports and circulars to shareholders.

Additionally, the AGM and Extraordinary General Meetings provides an opportunity for the shareholders to seek and clarify any issues and to have a better understanding of the Group's performance. The Board encourages shareholders' active participation at such meetings. Members of the Board and the external auditors are also present to answer questions raised during the meetings.

Notices of each meeting are issued in a timely manner to all shareholders. Each item of special business included in the notice of AGMs is accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of issues involved.

Throughout the year, the executive directors, who are responsible for investor relations of the Company, meet with analysts and institutional investors. Presentations based on permissible disclosures are made to explain the Group's strategies, performance and activities. Price sensitive and any information that may be regarded as undisclosed material information about the Group is however not disclosed in these exchanges until after the prescribed announcement to Bursa Securities has been made.

The Company also maintains a website (www.kesmi.com) through which shareholders and members of the public in general can gain access to information about the Group.

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Apart from the dual roles held by the Executive Chairman/CEO and the setting up of a Nomination Committee and a Remuneration Committee, the Board considers that the Company has substantially complied with the Best Practices as set out in the Code throughout the financial year ended 31 July 2005.

This statement is made in accordance with the resolution of the Board of Directors at its meeting held on 19 September 2005.

Other Information

During the financial year under review,

1. SHARE BUYBACKS

The Company did not have a share buyback scheme in place.

2. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

5,000 options were exercised pursuant to the Company's executives' share option scheme. The Company did not issue any warrants or convertible securities.

3. AMERICAN DEPOSITORY RECEIPT (ADR) OR GLOBAL DEPOSITORY RECEIPT (GDR) PROGRAMME

The Company did not sponsor any ADR or GDR programme.

4. IMPOSITION OF SANCTIONS AND/OR PENALTIES

There were no sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or management by the relevant regulatory bodies during the financial year.

5. NON-AUDIT FEES

The Company did not pay any non-audit fees to the external auditors.

6. PROFIT ESTIMATE, FORECAST OR PROJECTION

There was no profit estimate, forecast or projection or unaudited results released which differ by 10% or more from the audited results.

7. PROFIT GUARANTEES

There were no profit guarantees given by the Company.

8. MATERIAL CONTRACTS

No material contracts were entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests.

9. CONTRACTS RELATING TO LOANS

There were no contracts relating to loans by the Company.

10. REVALUATION POLICY ON LANDED PROPERTIES

The carrying amounts of the landed properties at valuation are regularly reviewed such that the carrying amounts at balance sheet date are not materially different from their fair values.

Where properties are revalued, any surplus on revaluation is credited to the asset valuation reserve. A decrease in net carrying amount arising on revaluation of properties is charged to the income statement to the extent that it exceeds any surplus held in reserve relating to previous revaluation of the same class of properties.

Statement on Internal Control

INTRODUCTION

The Board is pleased to make the following disclosures pursuant to Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad, which requires the Board of Directors of public listed companies to include in its annual report “a statement about the state of internal control of the listed issuer as a group”.

BOARD'S DISCLOSURE ON RISK MANAGEMENT

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that had been in place for the financial year ended 31 July 2005, and that the process is regularly reviewed by the Board and accords with The Statement on Internal Control - Guidance For Directors of Public Listed Companies.

BOARD'S RESPONSIBILITY

In accordance with Principle D II in Part 1 of the Malaysian Code on Corporate Governance, the Board is committed to maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. Accordingly, the Board acknowledges its responsibility for the Group's overall system of internal control which includes the establishment of an appropriate control environment and framework as well as reviewing its adequacy and integrity. However, it should be noted that due to the limitations that are inherent in any system of internal control such a system is designed to manage rather than eliminate the risk of failure to achieve the Group's business objectives. Accordingly, it can only provide reasonable and not absolute assurance against material misstatement or loss.

REVIEW PROCESS FOR INTERNAL CONTROL SYSTEM

In view of the size and nature of the Group's operations, it is not cost justifiable for the Group to maintain an in-house function for the review of the Group's internal control system, which forms part of the internal audit function.

The outsourced internal audit function facilitates the Board in its review of and evaluation of the adequacy and integrity of the Group's internal control systems. The full Board through the Audit Committee meets to review, discuss, and direct actions on matters pertaining to the internal auditor's report, which among other matters, include findings relating to the adequacy and integrity of the internal control system of the Group. Internal audits are carried out annually to provide independent assessments on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business systems and processes and in controlling the proper conduct of business within the Group.

The internal auditor adopts a risk-based approach and prepares its audit strategy and plan based on the risk profiles of the business units of the Group. The audit plan is presented to the Audit Committee for approval annually. The resulting reports from the audits undertaken are reviewed by the Audit Committee and then forwarded to the operational management for attention and necessary corrective actions. The operational management is responsible for ensuring the corrective actions on reported weaknesses are taken within the required time frame.

Statement on Internal Control

ADDITIONAL INFORMATION

Apart from internal audit, the Board has put in place an organisation structure with formally defined lines of responsibility and delegation of authority. A process of hierarchical reporting has been established which provides for a documented and auditable trail of accountability.

The monitoring and management of the Group is delegated to the two Executive Board members and senior operational management. The Executive Board members through their day-to-day involvement in the business operations and regular attendance at senior management level meetings, manage and monitor the Group's financial performance, key business indicators, operational effectiveness and efficiency, discuss and resolve significant business issues and ensure compliance with applicable laws, regulations, rules, directives and guidelines. These senior management meetings serve as a two-way platform for the Board, through the Executive Board members, to communicate and address significant matters in relation to the Group's business and financial affairs and provide update on significant changes in the business and the external environment which result in significant risks.

Internal control procedures are set out in a series of standard operating practice manuals and business process manuals to serve as a guidance for proper measures to be undertaken and are subject to regular review, enhancement and improvement.

CONCLUSION

The Board is of the opinion that the system of internal control that has been instituted throughout the Group was satisfactory and has not resulted in any material losses that would require disclosure in the Group's annual report. Notwithstanding this, the Board will continue to review the control procedures to ensure the effectiveness and adequacy of the internal control system of the Group.

This statement is made in accordance with the resolution of the Board of Directors dated 19 September 2005.

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Financial Statements

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the year ended 31 July 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, provision of semiconductor burn-in services and assembly of electronic components. The principal activities of its subsidiary companies are the provision of semiconductor burn-in and testing of semiconductor integrated circuits and assembly of electronic components.

There have been no significant changes in the nature of these activities during the year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit after taxation and minority interest	<u>13,981</u>	<u>8,038</u>

There were no material transfers to or from reserves or provisions during the year other than as disclosed in the statements of changes in equity.

In the opinion of the Directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

DIVIDEND

On 5 February 2005, the Company paid a first and final tax exempt dividend of 1.75 sen per share amounting to RM752,509, as reported in the Directors' report of the previous financial year.

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2005, of 1.75 sen per ordinary shares will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 July 2006.

DIRECTORS

The Directors of the Company in office since the date of the last report and at the date of this report are:

Samuel Lim Syn Soo
Kenneth Tan Teoh Khoo
Lim Mee Ing
Dato' Dr Norraesah Haji Mohamad
Ahmad Riza Bin Basir
Tuan Haji Zakariah Bin Yet
Yong Chee Hou

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby Directors might acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate other than those arising from share options granted pursuant to the Company's Executives' Share Option Scheme ("ESOS").

Directors' Report

DIRECTORS (CONT'D)

The following Directors who held office at the end of the financial year had, according to the register required to be kept under Section 134 of the Companies Act 1965, interests in shares and options in the Company as stated below:

	Number of Ordinary Shares of RM1.00 Each			
	At 1.8.2004	Bought	Sold	At 31.7.2005
Dato' Dr Norraesah Haji Mohamad				
- Direct interest	7,500	-	-	7,500
- Indirect interest	867,500	-	(10,500)	857,000
Samuel Lim Syn Soo				
- Deemed interest	20,825,000	-	-	20,825,000

	Option Price	Options to Subscribe for Ordinary Shares of RM1.00 Each			At 31.7.2005
		At 1.8.2004	Granted	Exercised	
Samuel Lim Syn Soo					
First Option*	RM2.192	50,000	-	-	50,000
Second Option*	RM2.464	50,000	-	-	50,000
Third Option*	RM2.344	50,000	-	-	50,000
Fourth Option	RM3.100	34,000	-	-	34,000
Fifth Option	RM2.500	-	20,000	-	20,000
Kenneth Tan Teoh Khoon					
First Option*	RM2.192	50,000	-	-	50,000
Second Option*	RM2.464	50,000	-	-	50,000
Third Option*	RM2.344	50,000	-	-	50,000
Fourth Option	RM3.100	34,000	-	-	34,000
Fifth Option	RM2.500	-	20,000	-	20,000

* Adjusted to include the effect of bonus issue of shares of 3 for 2 existing shares made on 4 December 2002 by the Company.

Samuel Lim Syn Soo, by virtue of his interest in shares in the Company, is also deemed interested in shares of all the Company's subsidiaries to the extent the Company has an interest.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments and fees received or due and receivable by the Directors as shown in Note 5 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which a Director is a member or with a company in which the Director has a substantial financial interest except as disclosed in Note 23 to the financial statements.

Directors' Report

INCREASE IN SHARE CAPITAL

During the financial year, the Company increased its issued and paid up share capital from RM42,995,500 to RM43,000,500 by way of the issuance of 5,000 new ordinary shares of RM1.00 each for cash pursuant to the Company's ESOS at exercise price of RM2.344 per ordinary share.

EXECUTIVES' SHARE OPTION SCHEME

The Company's ESOS for eligible full-time employees and executive directors of the Company and its subsidiary companies was approved by shareholders at an Extraordinary General Meeting held on 7 September 2000. The ESOS became effective on 5 December 2000 when the last of the requisite approvals was obtained and is valid for a period of five (5) years expiring on 4 December 2005.

The maximum number of new shares which may be subscribed on the exercise of options granted under the ESOS shall not, in aggregate, exceed ten percent (10%) of the total issued and paid-up ordinary share capital of the Company at any point of time during the existence of the scheme.

The Option Price is determined according to the Bye-Laws of the ESOS and shall be the higher of:

- (a) the weighted average of the mean market price of the shares of the Company for the five (5) market days immediately preceding the date of offer; or
- (b) the par value of the share.

The persons to whom the options have been granted do not have any right to participate by virtue of such options in any share issue of any other company.

During the financial year, a total of 168,000 new options for ordinary shares of RM1.00 each in the Company were granted to eligible employees of the Group pursuant to the ESOS at an Option Price of RM2.50 per share. Of this total, 151,000 options had been accepted and the names of employees granted these options are disclosed in Note 28 to the financial statements.

The particulars of the options granted to eligible employees as at 31 July 2005 are as follows:

	Option Price RM	Granted	Number of Options		Lapsed	Total Available
			Accepted	Exercised		
First Option*	2.192	1,001,000	997,000	(386,500)	(161,000)	449,500
Second Option*	2.464	462,000	461,000	(40,000)	(28,500)	392,500
Third Option*	2.344	460,000	456,000	(38,000)	(43,500)	374,500
Fourth Option	3.100	312,800	297,800	-	(4,000)	293,800
Fifth Option	2.500	168,000	151,000	-	(5,000)	146,000
		<u>2,403,800</u>	<u>2,362,800</u>	<u>(464,500)</u>	<u>(242,000)</u>	<u>1,656,300</u>

* Adjusted to include the effect of bonus issue of shares of 3 for 2 existing shares made on 4 December 2002 by the Company.

Directors' Report

OTHER STATUTORY INFORMATION

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there are no known bad debts and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
- (i) it necessary to write off any debts or the amount of provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
- (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
- (i) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made; and
 - (ii) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

Directors' Report

AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 19 September 2005

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Kuala Lumpur, Malaysia
19 September 2005

Statement by Directors

Pursuant to Section 169(15) of the Companies Act 1965

We, Samuel Lim Syn Soo and Kenneth Tan Teoh Khoon, being two of the Directors of KESM Industries Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 32 to 61 are drawn up in accordance with applicable MASB Approved Accounting Standards in Malaysia and the provisions of the Companies Act 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2005 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 19 September 2005

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Kuala Lumpur, Malaysia
19 September 2005

Statutory Declaration

Pursuant to section 169(16) of the Companies Act 1965

I, Kenneth Tan Teoh Khoon, being the Director primarily responsible for the financial management of KESM Industries Berhad, do solemnly and sincerely declare that the financial statements set out on pages 32 to 61 are to my best knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Oaths and Declarations Act 2000.

Subscribed and solemnly declared by the abovementioned
Kenneth Tan Teoh Khoon in Singapore on 11th October 2005

Kenneth Tan Teoh Khoon

Before me,

Chia Choon Yang
Notary Public

Report of The Auditors to the members of KESM Industries Berhad

We have audited the financial statements set out on pages 32 to 61. These financial statements are the responsibility of the Company's Directors.

It is our responsibility to form an independent opinion, based on our audit, on the financial statements and to report our opinion to you, as a body, in accordance with Section 174 of the Companies Act 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with applicable Approved Standards on Auditing in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act 1965 and applicable MASB Approved Accounting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 July 2005 and of the results and the cash flows of the Group and of the Company for the financial year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in the form and content appropriate and proper for the purpose of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification material to the consolidated financial statements and did not include any comment required to be made under Section 174(3) of the Act.

Ernst & Young
AF: 0039
Chartered Accountants

See Huey Beng
No. 1495/03/07 (J)
Partner

Kuala Lumpur, Malaysia
19 September 2005

Income Statements

Year ended 31 July 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revenue	3	180,985	151,941	49,766	46,438
Other operating income		3,237	3,077	838	2,793
Total operating income		184,222	155,018	50,604	49,231
Raw materials and consumables used		(55,411)	(47,447)	(687)	(509)
Staff costs	4	(34,566)	(32,416)	(15,902)	(16,936)
Depreciation of property, plant and equipment		(38,779)	(29,387)	(7,143)	(9,543)
Other operating expenses		(33,648)	(25,272)	(17,984)	(12,880)
Profit from operating activities	5	21,818	20,496	8,888	9,363
Interest income	6	691	747	1,955	1,387
Interest expense	7	(3,405)	(2,504)	(515)	(783)
Profit before taxation		19,104	18,739	10,328	9,967
Taxation	8	(3,645)	(4,269)	(2,290)	(2,591)
Profit after taxation		15,459	14,470	8,038	7,376
Minority interest		(1,478)	(1,544)	-	-
Profit after taxation and minority interest		13,981	12,926	8,038	7,376
Earnings per share					
- Basic	9	33 sen	30 sen		
- Diluted	9	32 sen	30 sen		
Dividend per share paid during the year	10	1.75 sen	1.75 sen		

The accompanying notes form an integral part of the financial statements.

Balance Sheets

As at 31 July 2005

	Note	Group		Company	
		2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	11	110,495	111,416	29,315	32,731
Subsidiary companies	12	-	-	4,715	4,715
		<u>110,495</u>	<u>111,416</u>	<u>34,030</u>	<u>37,446</u>
CURRENT ASSETS					
Other investments	13	4,084	1,873	4,084	1,873
Inventories	14	5,282	6,293	155	158
Trade and other receivables	15	38,358	37,528	9,798	12,419
Tax recoverable		623	623	-	-
Due from subsidiaries	16	-	-	11,149	20,384
Deposits with licensed banks	17	49,904	34,652	32,695	16,838
Cash and bank balances		4,632	4,491	1,460	1,356
		<u>102,883</u>	<u>85,460</u>	<u>59,341</u>	<u>53,028</u>
CURRENT LIABILITIES					
Trade and other payables	18	21,941	29,253	6,382	7,131
Borrowings	19	22,551	21,903	3,433	5,021
Taxation		3,766	2,989	2,737	2,778
		<u>48,258</u>	<u>54,145</u>	<u>12,552</u>	<u>14,930</u>
NET CURRENT ASSETS					
		<u>54,625</u>	<u>31,315</u>	<u>46,789</u>	<u>38,098</u>
		<u>165,120</u>	<u>142,731</u>	<u>80,819</u>	<u>75,544</u>
FINANCED BY:					
Share capital	20	43,001	42,996	43,001	42,996
Reserves	21	77,752	64,517	28,243	20,951
		<u>120,753</u>	<u>107,513</u>	<u>71,244</u>	<u>63,947</u>
Minority interest		4,745	3,267	-	-
		<u>125,498</u>	<u>110,780</u>	<u>71,244</u>	<u>63,947</u>
NON-CURRENT LIABILITIES					
Borrowings	19	26,968	19,768	484	3,564
Deferred tax liabilities	22	12,654	12,183	9,091	8,033
		<u>39,622</u>	<u>31,951</u>	<u>9,575</u>	<u>11,597</u>
		<u>165,120</u>	<u>142,731</u>	<u>80,819</u>	<u>75,544</u>

The accompanying notes form an integral part of the financial statements.

Statements of Changes in Equity

Year ended 31 July 2005

	Note	Non-distributable			Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Asset revaluation reserve RM'000	Reserve on consolidation RM'000	Retained profits RM'000	
Group							
At 1 August 2003		42,667	236	3,138	430	43,836	90,307
Exercise of options to subscribe for ordinary shares in the Company		329	406	-	-	-	735
Profit after taxation and minority interest		-	-	-	-	12,926	12,926
Net surplus in revaluation of assets		-	-	4,295	-	-	4,295
Dividend		-	-	-	-	(750)	(750)
At 31 July 2004		42,996	642	7,433	430	56,012	107,513
Exercise of options to subscribe for ordinary shares in the Company		5	7	-	-	-	12
Profit after taxation and minority interest		-	-	-	-	13,981	13,981
Dividend	10	-	-	-	-	(753)	(753)
At 31 July 2005		43,001	649	7,433	430	69,240	120,753

	Note	Non-distributable			Distributable		Total RM'000
		Share capital RM'000	Share premium RM'000	Asset revaluation reserve RM'000	Merger relief reserve RM'000	Retained profits RM'000	
Company							
At 1 August 2003		42,667	236	503	1,215	10,344	54,965
Exercise of options to subscribe for ordinary shares in the Company		329	406	-	-	-	735
Profit after taxation		-	-	-	-	7,376	7,376
Net surplus in revaluation of assets		-	-	1,621	-	-	1,621
Dividend		-	-	-	-	(750)	(750)
At 31 July 2004		42,996	642	2,124	1,215	16,970	63,947
Exercise of options to subscribe for ordinary shares in the Company		5	7	-	-	-	12
Profit after taxation		-	-	-	-	8,038	8,038
Dividend	10	-	-	-	-	(753)	(753)
At 31 July 2005		43,001	649	2,124	1,215	24,255	71,244

The accompanying notes form an integral part of the financial statements.

Cash Flow Statements

Year ended 31 July 2005

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	19,104	18,739	10,328	9,967
Adjustments for:				
(Gain)/loss on disposal of property, plant and equipment	(2,271)	(131)	7	(60)
Depreciation of property, plant and equipment	38,779	29,387	7,143	9,543
Impairment of property, plant and equipment	589	302	589	302
Gain on disposal of quoted shares	(259)	(2,018)	(259)	(2,018)
(Write back of)/provision for impairment in value of quoted shares	(217)	363	(217)	363
Dividend income	(202)	(135)	(202)	(135)
Interest expense	3,405	2,504	515	783
Interest income	(691)	(747)	(1,955)	(1,387)
Operating profit before working capital changes	58,237	48,264	15,949	17,358
Changes in working capital:				
Inventories	1,011	(1,018)	3	(11)
Receivables	(830)	(12,631)	2,621	(3,471)
Subsidiary companies	-	-	9,235	(10,156)
Payables	3,586	1,801	(161)	1,800
Cash generated from operations	62,004	36,416	27,647	5,520
Tax paid	(2,397)	(1,478)	(1,273)	(926)
Tax refund	-	897	-	-
Interest paid	(3,405)	(2,504)	(515)	(783)
Interest received	691	747	1,955	1,387
Net cash generated from operating activities	56,893	34,078	27,814	5,198
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment in quoted shares	(3,889)	(952)	(3,889)	(952)
Proceeds from disposal of quoted shares	2,154	4,938	2,154	4,938
Dividend income	202	135	202	135
Purchase of property, plant and equipment	(52,736)	(31,050)	(4,532)	(1,545)
Proceeds from disposal of property, plant and equipment	7,245	136	7	63
Net cash (used in)/generated from investing activities	(47,024)	(26,793)	(6,058)	2,639
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of hire purchase obligations	(4,028)	(2,934)	(2,174)	(1,880)
Repayments of term loans	(21,593)	(18,367)	(2,880)	(5,209)
Drawdown of term loans	31,886	16,756	-	-
Issue of new shares	12	735	12	735
Dividend paid	(753)	(750)	(753)	(750)
Net cash generated from/(used in) financing activities	5,524	(4,560)	(5,795)	(7,104)

Cash Flow Statements

Year ended 31 July 2005

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
NET CHANGE IN CASH AND CASH EQUIVALENTS	15,393	2,725	15,961	733
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	39,143	36,418	18,194	17,461
CASH AND CASH EQUIVALENTS AT END OF YEAR	54,536	39,143	34,155	18,194
Cash and cash equivalents at end of year comprise:				
Deposits with licensed banks	49,904	34,652	32,695	16,838
Cash and bank balances	4,632	4,491	1,460	1,356
	54,536	39,143	34,155	18,194

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

- 31 July 2005

1. CORPORATE INFORMATION

The principal activities of the Company are investment holding, provision of semiconductor burn-in services and assembly of electronic components. The principal activities of its subsidiary companies are the provision of burn-in and testing of semiconductor integrated circuits and assembly of electronic components. There have been no significant changes in the nature of these activities during the year.

The Company is a public limited company, incorporated and domiciled in Malaysia and is listed on the Second Board of the Bursa Malaysia Securities Berhad. The registered office of the Company is at Level 17, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur, Malaysia.

The principal place of business of the Company is located at Lot 4, Jalan SS 8/4, Sungei Way Free Industrial Zone, 47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 19 September 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements of the Group and of the Company are prepared under the historical cost convention, modified to include the revaluation of certain property, plant and equipment and comply with the provisions of the Companies Act 1965 and applicable MASB Approved Accounting Standards in Malaysia.

(b) Basis of Consolidation

The Group financial statements incorporate the financial statements of the Company and all its subsidiary companies. The subsidiaries are consolidated using either the acquisition or merger method of accounting.

Under the acquisition method of accounting, the results of a subsidiary company acquired or disposed during the year are included from the date of acquisition or up to date of disposal. At the date of acquisition, the fair values of the subsidiary's net assets are determined and these values are reflected in the Group financial statements.

The net difference between the acquisition cost and attributable fair value of net assets acquired is reflected as goodwill or negative goodwill as appropriate. Goodwill or negative goodwill is dealt with through income statement.

Under the merger method of accounting, the results of a subsidiary company are included as if the subsidiary has been combined throughout the current and previous financial years. Merger deficit arising is eliminated against retained profit reserve in the year in which the merger method of accounting is applied.

Intra-group transactions, balances and resulting unrealised gains are eliminated on consolidation and the consolidated financial statements reflect external transactions only. Unrealised losses are eliminated on consolidation unless costs cannot be recovered.

The gain or loss on disposal of a subsidiary company is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill and exchange differences.

Notes to the Financial Statements

- 31 July 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(b) Basis of Consolidation (Contd.)

Minority interests in the consolidated balance sheet consist of the minorities' share of the fair value of the identifiable assets and liabilities of the acquiree as at acquisition date and the minorities' share of movements in the acquiree's equity since then.

(c) Revenue Recognition

Revenue is recognised upon passage of title to the customer which generally coincides with the delivery, or the rendering of service to the customer.

Interest income is recognised on an accrual basis.

Dividend income is recognised when the right to receive such dividends is established.

Rental income is recognised over the period of tenancy.

(d) Subsidiary Companies

Subsidiary companies are those companies in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities.

Investments in subsidiary companies are stated at cost less impairment losses.

(e) Property, Plant and Equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the property, plant and equipment to working condition for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are charged to the income statement.

When property, plant and equipment are sold or retired, their cost or valuation and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal/retirement is included in the income statement. Any remaining attributable revaluation surplus is taken to distributable reserve.

The carrying amounts of the property, plant and equipment at valuation is reviewed regularly such that the carrying amounts at balance sheet date are not materially different from their fair values.

Where property, plant and equipment are revalued, any surplus on revaluation is credited to the asset revaluation reserve. A decrease in net carrying amount arising on revaluation of property, plant and equipment is charged to the income statement to the extent that it exceeds any surplus held in reserve relating to previous revaluation of the same class of property, plant and equipment.

Notes to the Financial Statements

- 31 July 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(f) Depreciation

Depreciation of property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following estimated useful lives:

Buildings	-	20 years
Leasehold improvements	-	5 years
Plant, machinery and test equipment	-	1.5 to 5 years
Motor vehicles	-	5 years
Office equipment, furniture and fittings and computers	-	3 to 10 years

No depreciation is provided on capital work-in-progress. Long term leasehold land which has unexpired lease period exceeding 50 years is also not depreciated as its economic life and residual value are such that the depreciation and accumulated depreciation are not material. Short-term leasehold land is amortised evenly over the unexpired lease period.

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use but no further charge for depreciation is made in respect of these assets.

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the net carrying amount is recognised in the income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained profits.

(g) Leases

A lease is recognised as a finance lease if it transfers substantially to the Group all risks and rewards incident to an ownership. All other leases are classified as operating leases.

Assets acquired by way of finance lease is stated at an amount equal to the lower of their fair values and the present value of the minimum lease payments at the inception of the leases, less accumulated depreciated and impairment losses. The corresponding liability is included in the balance sheet as borrowings. In calculating the present value of the minimum lease payments, the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the Group's incremental borrowing rate is used.

Lease payments are apportioned between the finance costs and the reduction of the outstanding liability. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised as an expense in the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2(f).

Notes to the Financial Statements

- 31 July 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials on a weighted average basis and in the case of finished products, includes direct labour and attributable production overheads based on normal level of activity. Net realisable value represents the estimated selling price less anticipated cost of completion and estimated costs to conclude the sale.

(i) Financial Instruments

Financial instruments are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. The particular recognition method adopted for financial instruments recognised in the balance sheet is disclosed in the individual accounting policies associated with each item.

(i) Short Term Investments

Quoted investments are stated at the lower of cost and market value, determined on an aggregate basis.

(ii) Receivables

Known bad debts are written off and specific provision is made for any debt considered to be doubtful of collection. In addition, an estimate is made on doubtful debts based on a review of all outstanding amounts at year end.

(iii) Payables

Payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the Company.

(iv) Interest-Bearing Borrowings

Interest-bearing bank loans are recorded at the amount of proceeds received, net of transaction costs.

All borrowing costs are recognised as an expense in the income statement in the year in which they are incurred.

(j) Provisions for Liabilities

Provisions for liabilities are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

(k) Foreign Currencies

Transactions arising in foreign currencies during the year are recorded at rates closely approximating those ruling on the transaction dates. Foreign currency monetary assets and liabilities are reported in Ringgit Malaysia at the exchange rates ruling at the balance sheet date. All exchange differences are dealt with through the income statement.

Notes to the Financial Statements

- 31 July 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(k) Foreign Currencies (Contd.)

The principal exchange rates used for each respective unit of foreign currency ruling at the balance sheet date are as follows:

	2005 RM	2004 RM
Singapore Dollars	2.25	2.20
United States Dollars	3.75	3.80
Japanese Yen	3.34	3.46
Euro Dollars	4.53	4.63

(l) Income Tax

Income tax on the profit and loss for the year comprises current and deferred tax. Current tax is the expected amount of income tax payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted at the balance sheet date.

Deferred taxation is provided for, using the liability method, on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is not recognised if the temporary differences arises from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred taxation is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is recognised in the income statement, except when it arises from a transaction which is recognised directly in equity, in which case the deferred tax is also recognised directly in equity, or when it arises from a business combination that is an acquisition, in which case the deferred tax is included in the resulting goodwill or negative goodwill.

(m) Impairment of Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication of impairment. If any indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amount. Recoverable amount is the higher of net selling price and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised as an expense in the income statement immediately, unless the asset is carried at revalued amount. Any impairment loss of a revalued asset is treated as a revaluation decrease to the extent of any unutilised previously recognised revaluation surplus for the same assets. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

Notes to the Financial Statements

- 31 July 2005

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

(n) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and bank balances, demand deposits and other short term highly liquid investments, which are readily convertible to cash with insignificant risk of changes in value, net of outstanding bank overdrafts.

(o) Employee Benefits

(i) Short Term Benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined Contribution Plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the Employees Provident Fund. Such contributions are recognised as an expense in the income statement as incurred.

(iii) Equity Compensation Benefits

The Company's Executives' Share Option Scheme allows the Group's employees to acquire shares of the Company. No compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received.

3. REVENUE

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Burn-in and testing services	115,925	97,095	49,766	46,438
Sales and assembly of electronic equipment	65,060	54,846	-	-
	<u>180,985</u>	<u>151,941</u>	<u>49,766</u>	<u>46,438</u>

4. STAFF COSTS

Salaries and wages	27,334	23,502	10,221	11,086
Pension costs - defined contribution plans	1,514	1,173	480	428
Social security costs	212	205	59	113
Short term accumulating compensated absences	20	408	(31)	218
Others	5,486	7,128	5,173	5,091
	<u>34,566</u>	<u>32,416</u>	<u>15,902</u>	<u>16,936</u>

Staff costs above exclude directors' remuneration.

Average number of employees (excluding directors during the year)	<u>1,390</u>	<u>1,235</u>	<u>482</u>	<u>534</u>
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Notes to the Financial Statements

- 31 July 2005

5. PROFIT FROM OPERATING ACTIVITIES

This is arrived at after charging/(crediting):

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Auditors' remuneration				
- current year	123	118	58	58
- underprovision in prior year	-	12	-	5
Directors' emoluments	1,592	1,752	782	742
Depreciation of property, plant and equipment	38,779	29,387	7,143	9,543
Impairment of property, plant and equipment	589	302	589	302
(Write back of)/provision for impairment in value of quoted shares	(217)	363	(217)	363
Rent of equipment	427	20	5	20
Rent of factory	1,157	285	1,157	285
Bad debt recovered	(9)	(41)	-	-
(Gain)/loss on disposal of property, plant and equipment	(2,271)	(131)	7	(60)
Gain on disposal of quoted shares	(259)	(2,018)	(259)	(2,018)
Gross dividends from other investments	(202)	(135)	(202)	(135)
Rental income from a subsidiary	-	-	(325)	(325)

Directors' Emoluments

Directors of the Company and subsidiaries

Executive

- Fees	838	1,038	38	38
- Salaries and other emoluments	620	580	620	580
	<u>1,458</u>	<u>1,618</u>	<u>658</u>	<u>618</u>

Non-Executive

- Fees	<u>134</u>	<u>134</u>	<u>124</u>	<u>124</u>
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Total Directors' emoluments

	<u>1,592</u>	<u>1,752</u>	<u>782</u>	<u>742</u>
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The number of directors of the Company whose total emoluments during the year fell within the following bands is analysed below:

	Number of Directors	
	2005	2004
Executive directors:		
RM300,001 to RM350,000	<u>2</u>	<u>2</u>
Non-executive directors:		
Less than RM50,000	<u>5</u>	<u>5</u>

Notes to the Financial Statements

- 31 July 2005

5. PROFIT FROM OPERATING ACTIVITIES (CONTD.)

Executive directors of the Company have been granted the following number of options under the Executives' Share Option Scheme:

	Group/Company	
	2005	2004
	'000	'000
At 1 August	368	300
Granted	40	68
At 31 July	408	368

The share options were granted on the same terms and conditions as those offered to other employees of the Group.

6. INTEREST INCOME

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
- deposits with licensed banks	691	747	293	304
- loan to subsidiary	-	-	220	220
- advance to subsidiary	-	-	1,442	863
	691	747	1,955	1,387

7. INTEREST EXPENSE

Interest expense on:				
- term loans	2,745	1,969	251	553
- hire purchase contracts	470	352	264	230
- loan from corporate shareholder	118	110	-	-
- revolving credit	72	73	-	-
	3,405	2,504	515	783

8. TAXATION

Malaysian taxation based on results for the year:

- Current	3,229	1,672	1,350	1,338
- Over provision in prior years	(55)	(263)	(118)	-
	3,174	1,409	1,232	1,338

Deferred tax (Note 22)

- Current	994	2,894	1,020	1,253
- (Over)/under provision in prior years	(523)	(34)	38	-
	471	2,860	1,058	1,253
	3,645	4,269	2,290	2,591

Notes to the Financial Statements

- 31 July 2005

8. TAXATION (CONTD.)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	Group	
	2005 RM'000	2004 RM'000
Profit before taxation	19,104	18,739
Taxation at Malaysian statutory tax rate of 28%	5,349	5,247
Effect of different tax rates used due to incentives and others	(80)	(41)
Income not subject to tax	(154)	(810)
Expenses not deductible for tax purpose	578	751
Utilisation of unabsorbed capital allowances brought forward	-	(581)
Utilisation of previously unrecognised unutilised reinvestment allowances	(791)	-
Utilisation of current year's reinvestment allowances	(679)	-
Over provision of income tax expense in prior years	(55)	(263)
Over provision of deferred tax in prior years	(523)	(34)
Tax charge for the year	<u>3,645</u>	<u>4,269</u>
	Company	
	2005 RM'000	2004 RM'000
Profit before taxation	10,328	9,967
Taxation at Malaysian statutory tax rate of 28%	2,892	2,791
Income not subject to tax	(154)	(811)
Expenses not deductible for tax purpose	417	611
Utilisation of previously unrecognised unutilised reinvestment allowances	(785)	-
Over provision of income tax expense in prior years	(118)	-
Under provision of deferred tax in prior years	38	-
	<u>2,290</u>	<u>2,591</u>

Notes to the Financial Statements

- 31 July 2005

9. EARNINGS PER SHARE

	Group/Company	
	2005	2004
	RM'000	RM'000
Profit after taxation and minority interest	13,981	12,926
	Number	Number
	('000)	('000)
Weighted average number of ordinary shares in issue for basic earnings per share	43,001	42,886
Adjustment for conversion of options under ESOS to ordinary shares	86	343
	<u>43,087</u>	<u>43,229</u>
Basic earnings per share	<u>33 sen</u>	<u>30 sen</u>
Diluted earnings per share	<u>32 sen</u>	<u>30 sen</u>

10. DIVIDEND

	Group	
	2005	2004
	RM'000	RM'000
Paid		
First and final tax exempt dividend of 1.75 sen per ordinary share for 2004 based on issued share capital of 43,000,500 shares paid on 5 February 2005.	-	753
Proposed		
First and final tax exempt dividend of 1.75 sen per ordinary share for 2005 to be proposed in the forthcoming Annual General Meeting.	753	-
Dividend per share	<u>1.75 sen</u>	<u>1.75 sen</u>

Notes to the Financial Statements

- 31 July 2005

11. PROPERTY, PLANT AND EQUIPMENT

Group	Long term leasehold land RM'000	Short term leasehold land RM'000	Buildings RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in- progress RM'000	Total RM'000
Cost/Valuation									
At 1 August 2004	3,500	3,020	22,350	1,730	210,242	1,016	5,115	1,027	248,000
Additions	-	-	-	302	30,507	-	1,126	11,486	43,421
Disposals	-	-	-	-	(12,693)	-	(113)	-	(12,806)
Reclassification	-	-	-	-	10,983	-	-	(10,983)	-
At 31 July 2005	3,500	3,020	22,350	2,032	239,039	1,016	6,128	1,530	278,615
Representing:									
At cost	-	-	-	2,032	239,039	1,016	6,128	1,530	249,745
At valuation	3,500	3,020	22,350	-	-	-	-	-	28,870
	3,500	3,020	22,350	2,032	239,039	1,016	6,128	1,530	278,615
Accumulated Depreciation and Impairment Losses									
At 1 August 2004	-	-	-	1,282	131,187	353	3,762	-	136,584
Depreciation charge	-	71	1,308	195	36,315	154	736	-	38,779
Impairment losses	-	-	-	63	526	-	-	-	589
Disposals	-	-	-	-	(7,727)	-	(105)	-	(7,832)
At 31 July 2005	-	71	1,308	1,540	160,301	507	4,393	-	168,120
Net Book Value									
At 31 July 2005:									
At cost	-	-	-	492	78,738	509	1,735	1,530	83,004
At valuation	3,500	2,949	21,042	-	-	-	-	-	27,491
	3,500	2,949	21,042	492	78,738	509	1,735	1,530	110,495
At 31 July 2004:									
At cost	-	-	-	448	79,055	663	1,353	1,027	82,546
At valuation	3,500	3,020	22,350	-	-	-	-	-	28,870
	3,500	3,020	22,350	448	79,055	663	1,353	1,027	111,416

Notes to the Financial Statements

- 31 July 2005

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Group	Long term leasehold land RM'000	Short term leasehold land RM'000	Buildings RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in- progress RM'000	Total RM'000
Details at 31 July 2003									
Cost	-	-	-	1,431	163,374	967	4,717	5,559	176,048
Valuation	3,908	2,700	23,301	-	-	-	-	-	29,909
Accumulated depreciation and impairment losses	-	288	5,490	1,136	107,286	752	3,485	-	118,437
Depreciation charge for 2004									
	-	65	1,162	146	27,479	76	459	-	29,387

Company	Long term leasehold land RM'000	Short term leasehold land RM'000	Buildings RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Total RM'000
Cost/Valuation								
At 1 August 2004	3,500	320	11,030	1,071	74,562	509	3,043	94,035
Additions	-	-	-	26	3,706	-	598	4,330
Disposals	-	-	-	-	(67)	-	(12)	(79)
At 31 July 2005	3,500	320	11,030	1,097	78,201	509	3,629	98,286
Representing:								
At cost	-	-	-	1,097	78,201	509	3,629	83,436
At valuation	3,500	320	11,030	-	-	-	-	14,850
	3,500	320	11,030	1,097	78,201	509	3,629	98,286

Accumulated Depreciation and Impairment Losses

At 1 August 2004	-	-	-	830	57,981	231	2,262	61,304
Depreciation charge	-	6	552	75	6,067	73	370	7,143
Impairment losses	-	-	-	63	526	-	-	589
Disposals	-	-	-	(59)	-	(6)	(65)	-
At 31 July 2005	-	6	552	968	64,515	304	2,626	68,971

Notes to the Financial Statements

- 31 July 2005

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Company	Long term leasehold land RM'000	Short term leasehold land RM'000	Buildings RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Total RM'000
Net Book Value								
At 31 July 2005:								
At cost	-	-	-	129	13,686	205	1,003	15,023
At valuation	3,500	314	10,478	-	-	-	-	14,292
	3,500	314	10,478	129	13,686	205	1,003	29,315
At 31 July 2004:								
At cost	-	-	-	241	16,581	278	781	17,881
At valuation	3,500	320	11,030	-	-	-	-	14,850
	3,500	320	11,030	241	16,581	278	781	32,731
Details at 31 July 2003								
Cost	-	-	-	905	71,664	511	2,877	75,957
Valuation	3,908	-	12,287	-	-	-	-	16,195
Accumulated depreciation and impairment losses	-	-	2,978	734	49,183	322	2,044	55,261
Depreciation charge for 2004								
	-	8	611	96	8,523	55	250	9,543

Notes to the Financial Statements

- 31 July 2005

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

The properties were revalued by the Directors based on valuations conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers, in June 2004. The valuers used the cost method of valuation and the comparison method of valuation to determine the market value of the properties.

Had the properties been carried at cost less accumulated depreciation, their carrying amounts would have been as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Long term leasehold land	85	85	85	85
Short term leasehold land	390	399	181	185
Buildings	9,704	10,607	4,357	4,733

The Company has not received the title deed to a leasehold land with a carrying amount of RM3,500,000 (2004: RM3,500,000). Similarly, a subsidiary has not received the strata titles to certain units of apartments with an aggregate carrying amount of RM643,000 (2004: RM690,000).

The aggregate net book values of plant, machinery and test equipment of the Group and the Company of RM48,393,000 (2004: RM42,332,000) and RM3,682,000 (2004: RM6,184,000) respectively, are pledged as securities for term loans obtained.

The carrying amounts of property, plant and equipment held under hire purchase arrangements as at balance sheet date are as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Plant, machinery and test equipment	8,921	10,576	4,211	5,393
Office equipment, furniture and fittings and computers	86	98	75	56
Motor vehicles	493	636	205	272
	9,500	11,310	4,491	5,721

Acquisitions of property, plant and equipment during the financial year were made by the following means:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Cash payments	41,203	31,050	3,944	1,545
Hire purchase	1,583	5,041	386	1,303
Financed by creditors	635	11,533	-	588
	43,421	47,624	4,330	3,436

Notes to the Financial Statements

- 31 July 2005

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

Fully depreciated property, plant and equipment which are still in use as at balance sheet date are as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At cost:				
Plant, machinery and test equipment	108,857	78,309	52,324	38,073
Leasehold improvements	1,250	1,010	890	700
Office equipment, furniture and fittings and computers	2,970	2,717	1,808	1,673
Motor vehicles	273	224	172	123
Building	-	58	-	58
	<u>113,350</u>	<u>82,318</u>	<u>55,194</u>	<u>40,627</u>

12. SUBSIDIARY COMPANIES

	Company	
	2005 RM'000	2004 RM'000
At cost:		
Unquoted shares	<u>4,715</u>	<u>4,715</u>

The subsidiary companies are:

Name of Company	Country of Incorporation	Principal Activities	Equity interests	
			2005 %	2004 %
KESP Sdn Bhd	Malaysia	Provision of semiconductor burn-in and cold testing services and assembly of electronic components	100	100
KESM Test (M) Sdn Bhd	Malaysia	Testing of semiconductor integrated circuits	65.38	65.38

13. OTHER INVESTMENTS

	Group/Company	
	2005 RM'000	2004 RM'000
At cost:		
Shares quoted in Malaysia	4,230	2,236
Less: Impairment loss	<u>(146)</u>	<u>(363)</u>
	<u>4,084</u>	<u>1,873</u>
Market value	<u>4,739</u>	<u>2,695</u>

Notes to the Financial Statements

- 31 July 2005

14. INVENTORIES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At cost:				
Raw materials	3,972	4,613	-	-
Consumables	623	797	155	158
Work-in-progress	17	179	-	-
Finished goods	670	704	-	-
	<u>5,282</u>	<u>6,293</u>	<u>155</u>	<u>158</u>
Cost of inventories recognised as an expense during the year	<u>53,891</u>	<u>43,236</u>	<u>145</u>	<u>98</u>

15. TRADE AND OTHER RECEIVABLES

Trade receivables	36,609	35,579	8,800	11,629
Non-trade receivables				
- sundry debtors	313	584	192	328
- current account with related parties	73	13	35	-
- prepayments	818	805	284	282
- deposits	545	547	487	180
	<u>38,358</u>	<u>37,528</u>	<u>9,798</u>	<u>12,419</u>

The Group's normal trade credit term ranges from 30 days to 95 days.

Related parties refer to a substantial corporate shareholder, Sunright Limited, in which certain Directors have financial interests, and its subsidiaries.

Amounts due from related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

16. DUE FROM SUBSIDIARIES

	Company	
	2005 RM'000	2004 RM'000
Amount due from subsidiaries comprise:		
Loan receivable	2,595	2,595
Advances	-	14,542
Others	8,554	3,247
	<u>11,149</u>	<u>20,384</u>

These amounts are unsecured, interest free and have no fixed terms of repayment except for loan receivable and advances which bore interest at commercial rates during the financial year.

Notes to the Financial Statements

- 31 July 2005

17. DEPOSITS WITH LICENSED BANKS

Fixed deposits amounting to RM32,000 (2004: RM8,024,000) are pledged to banks as security for credit facilities granted to the Group.

The average maturities of deposits at the end of the financial year and the weighted average effective interest rates of the Group and Company were as follows:

	Group		Company	
	2005	2004	2005	2004
Average maturities of deposit at the financial year	31 days	23 days	30 days	19 days
Weighted average effective interest rates	2.62%	2.62%	2.53%	2.42%

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Trade payables	4,845	4,061	90	43
Non-trade payables				
- current account with related parties	44	906	-	297
- accrual for Directors' fees	972	1,172	162	162
- balance due for acquisitions of property, plant and equipment	635	11,533	-	588
- others	15,445	11,581	6,130	6,041
	<u>21,941</u>	<u>29,253</u>	<u>6,382</u>	<u>7,131</u>

The normal trade credit terms granted to the Group range from 30 days to 60 days.

Amounts due to related parties, as defined in Note 15, are unsecured, non-interest bearing and have no fixed terms of repayment.

19. BORROWINGS

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Revolving credits - unsecured	1,500	1,500	-	-
Hire purchase payables (a)	4,746	7,191	2,092	3,880
Term loans - secured (b)	41,899	31,606	1,825	4,705
Other loan - unsecured (c)	1,374	1,374	-	-
	<u>49,519</u>	<u>41,671</u>	<u>3,917</u>	<u>8,585</u>
Amounts repayable within 12 months:				
Revolving credits - unsecured	(1,500)	(1,500)	-	-
Hire purchase payables	(3,404)	(3,711)	(1,608)	(2,141)
Term loans - secured	(17,647)	(16,692)	(1,825)	(2,880)
	<u>(22,551)</u>	<u>(21,903)</u>	<u>(3,433)</u>	<u>(5,021)</u>
Amounts repayable after 12 months	<u>26,968</u>	<u>19,768</u>	<u>484</u>	<u>3,564</u>

Notes to the Financial Statements

- 31 July 2005

19. BORROWINGS (CONTD.)

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(a) Hire purchase payables				
Within one year	3,791	4,145	1,802	2,401
After one year and not later than five years	1,492	3,879	541	1,949
	<u>5,283</u>	<u>8,024</u>	<u>2,343</u>	<u>4,350</u>
Future finance charges	(537)	(833)	(251)	(470)
Present value of hire purchase liabilities	<u>4,746</u>	<u>7,191</u>	<u>2,092</u>	<u>3,880</u>
Present value of hire purchase liabilities:				
Within one year	3,404	3,711	1,608	2,141
After one year and not later than 5 years	1,342	3,480	484	1,739
	<u>4,746</u>	<u>7,191</u>	<u>2,092</u>	<u>3,880</u>

The hire purchase liabilities bore interest at commercial rates during the financial year.

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
(b) Term loans - secured				
The term loans are repayable as follows:				
Financial year ending 31 July				
2005	-	16,692	-	2,880
2006	17,647	10,334	1,825	1,825
2007	14,434	4,580	-	-
2008	7,487	-	-	-
2009	2,331	-	-	-
	<u>41,899</u>	<u>31,606</u>	<u>1,825</u>	<u>4,705</u>

The secured term loans are secured by way of:

- (i) first party pledge of fixed deposits;
- (ii) first party pledge over the Group's and Company's property, plant and equipment with aggregate net book values of RM48,393,000 (2004: RM42,332,000) and RM3,682,000 (2004: RM6,184,000), respectively, as referred to in Note 11;
- (iii) negative pledge; and
- (iv) corporate guarantee provided by the Company.

The secured term loans bore interest at commercial rates during the financial year.

Notes to the Financial Statements

- 31 July 2005

19. BORROWINGS (CONTD.)

(c) Other loan - unsecured

Other loan represents an 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 commercial rates during the financial year and is not expected to be repaid in the next 12 months.

20. SHARE CAPITAL

	Group/Company		Group/Company	
	2005	2004	2005	2004
	Number	Number	RM'000	RM'000
	('000)	('000)		
Authorised:				
Ordinary shares of RM1 each				
As at 1 August/31 July	50,000	50,000	50,000	50,000
Issued and fully paid:				
Ordinary shares of RM1 each				
As at 1 August	42,996	42,667	42,996	42,667
Exercise of options	5	329	5	329
As at 31 July	43,001	42,996	43,001	42,996

The issued and paid-up share capital of the Company was increased from RM42,995,500 to RM43,000,500 as a result of the issuance of 5,000 ordinary shares of RM1.00 each to eligible executives who have exercised their options under the Company's Executives' Share Option Scheme.

21. RESERVES

	Group		Company	
	2005	2004	2005	2004
	RM'000	RM'000	RM'000	RM'000
Distributable:				
Retained profits	69,240	56,012	24,255	16,970
Non-distributable:				
Share premium	649	642	649	642
Asset revaluation reserve	7,433	7,433	2,124	2,124
Reserve on consolidation	430	430	-	-
Merger relief reserve	-	-	1,215	1,215
	77,752	64,517	28,243	20,951

As at balance sheet date, the Company has sufficient tax exempt account balance to distribute tax exempt dividends of approximately RM9,469,000 (2004: RM10,114,000). Based on estimated tax credit available under Section 108 of the Income Tax Act 1967 as at balance sheet date, the Company is able to frank payments of dividends amounting to RM12,987,000 (2004: RM8,569,000). Distribution of dividends in excess of these amounts would be subjected to tax at the prevailing statutory tax rate.

Notes to the Financial Statements

- 31 July 2005

22. DEFERRED TAXATION

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
At the beginning of financial year	12,183	7,652	8,033	6,149
Recognised in the income statement (Note 8)	471	2,860	1,058	1,253
Recognised in equity	-	1,671	-	631
At the end of financial year	12,654	12,183	9,091	8,033

Presented after appropriate offsetting as follows:

Deferred tax liabilities subject to income tax	12,654	12,183	9,091	8,033
--	--------	--------	-------	-------

Deferred Tax Liabilities of the Group

	Property, plant and equipment RM'000	Revaluation surplus RM'000	Others RM'000	Total RM'000
At 1 August 2003	242	1,982	8,238	10,462
Recognised in the income statement	2,053	(49)	2,265	4,269
Recognised in equity	-	1,671	-	1,671
At 31 July 2004	2,295	3,604	10,503	16,402
Recognised in the income statement	(1,680)	(115)	2,783	988
At 31 July 2005	615	3,489	13,286	17,390

Deferred Tax Assets of the Group

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 August 2003	(2,124)	(686)	(2,810)
Recognised in the income statement	(1,015)	(394)	(1,409)
At 31 July 2004	(3,139)	(1,080)	(4,219)
Recognised in the income statement	78	(595)	(517)
At 31 July 2005	(3,061)	(1,675)	(4,736)

Notes to the Financial Statements

- 31 July 2005

22. DEFERRED TAXATION (CONTD.)

Deferred Tax Liabilities of the Company

	Property, plant and equipment RM'000	Revaluation surplus RM'000	Others RM'000	Total RM'000
At 1 August 2003	28	1,155	7,597	8,780
Recognised in the income statement	31	(12)	2,267	2,286
Recognised in equity	-	631	-	631
At 31 July 2004	59	1,774	9,864	11,697
Recognised in the income statement	(17)	(11)	1,180	1,152
At 31 July 2005	42	1,763	11,044	12,849

Deferred Tax Assets of the Company

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 August 2003	(2,049)	(582)	(2,631)
Recognised in the income statement	(762)	(271)	(1,033)
At 31 July 2004	(2,811)	(853)	(3,664)
Recognised in the income statement	(80)	(14)	(94)
At 31 July 2005	(2,891)	(867)	(3,758)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2005 RM'000	2004 RM'000
Unutilised reinvestment allowances	67,758	54,986

The unutilised reinvestment allowances are available indefinitely for offset against future taxable profits of the respective subsidiaries.

Notes to the Financial Statements

- 31 July 2005

23. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant transactions between the Company and related parties, including subsidiaries during the financial year were as follows:

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Transactions with Sunright Limited, the corporate shareholder in which certain Directors have financial interests, and its subsidiary companies				
Management fees charged by Sunright Limited	4,038	3,024	1,578	1,007
Interest on loan from Sunright Limited	118	110	-	-
Purchase of property, plant and equipment from:				
- KES Systems & Service (1993) Pte Ltd	-	137	-	-
- KESU Systems & Service, Inc.	77	-	-	-
- KEST Systems & Service Ltd	950	-	684	-
Sale of property, plant and equipment to KES Systems, Inc.	7	-	7	-
Rent of property, plant and equipment from KES Test (S) Pte Ltd	-	171	-	-
Sales to KES Systems & Service (1993) Pte Ltd	-	63	-	-
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	1,151	381	937	256
- Kestronics (M) Sdn Bhd	130	19	11	7

Transactions with subsidiary companies

Rent of factory to subsidiary company	325	325
Interest on loan and advances to subsidiary company	1,662	1,083

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.

24. CONTINGENT LIABILITIES

	Company	
	2005 RM'000	2004 RM'000
Unsecured:		
Guarantees granted to licensed banks and financial institutions in respect of credit facilities extended to subsidiary companies	43,181	43,999

Notes to the Financial Statements

- 31 July 2005

25. CAPITAL COMMITMENT

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
Authorised and contracted for	731	11,191	703	99

26. SEGMENT INFORMATION

Segment information is not presented as the Group operates primarily in the electronic industry in Malaysia.

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its interest rate, foreign exchange, liquidity and credit risks. The Group's risk management approach seeks to minimise the potential material adverse impact of those exposures.

(b) Interest Rate Risk

The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable licensed banks.

Information relating to the Group's interest rate exposure is also disclosed in the notes on borrowings, including leasing obligations.

(c) Foreign Exchange Risk

The Group has transactional currency exposures which arises from property, plant and equipment purchases made in currencies other than its functional currency. The principal foreign currencies which the Group has exposure to are Singapore Dollars, United States Dollars, Japanese Yen and Euro Dollars. Transactional exposures in currencies other than the entity's functional currency are kept to a minimum.

The net unhedged financial assets and financial liabilities of the Group companies that are not denominated in their functional currencies are as follows:

	2005 RM	2004 RM
Net Financial Liabilities		
Non-functional Currencies:		
Singapore Dollars	1,565,300	2,967,751
United States Dollars	3,383,045	9,736,246
Japanese Yen	69,033	-
Euro Dollars	-	1,654,084
	<u>5,017,378</u>	<u>14,358,081</u>

Notes to the Financial Statements

- 31 July 2005

27. FINANCIAL INSTRUMENTS (CONTD.)

(d) Credit Risk

The carrying amounts of investments, trade and other receivables and cash represent the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

Financial transactions and the placement of surplus cash in short term interest-bearing deposits are restricted to reputable financial institutions.

(e) Liquidity Risk

The Group's cash and short-term deposits, operating cash flows, availability of banking facilities and debt maturity profile are actively managed to ensure adequate working capital requirements and that repayment and funding needs are met.

(f) Fair Values

The carrying amounts of the financial assets and liabilities, other than those disclosed below, approximate their fair values due to the short-term maturity of these financial instruments.

(i) Borrowings

The carrying amount of the borrowings approximate their fair values as these instruments bear interest at floating rates.

(ii) Other Investments

The fair value of quoted investments is determined by reference to the market price at the balance sheet date and is disclosed in Note 13.

Notes to the Financial Statements

- 31 July 2005

28. EXECUTIVES' SHARE OPTION SCHEME ("ESOS")

Options granted and accepted under ESOS during the financial year ended 31 July 2005 are as follows:

Name of Employees	Number of Options Granted
Chong Wan Kit	2,000
Hing Kam Lan	2,000
Ibrahim Bin Bujang	3,000
Kee Eng Yin	24,000
Khoo Jin Wen	2,000
Lim Chee Seng	24,000
Lim Guat Leng	3,000
Ling Jaw Lian	3,000
Looi Kwok Hoong	4,000
Murugathan A/L Peruma	3,000
Ng Boon Hin	3,000
Poon Win Yan	3,000
Samuel Lim Syn Soo	20,000
Kenneth Tan Teoh Khoon	20,000
Tang Kok Yew	2,000
Tay Chee Yee	6,000
Tee Hong Hiong	5,000
Teoh Choo Kuan	6,000
Wong Hoo Mooi	2,000
Wong Yew Wai	2,000
Wong Yin Lek	2,000
Yaw Kwee Huay	2,000
Yeo Kean Kee	4,000
Yew Yoke Tuan	4,000

Shareholders' Information

As at 30 September 2005

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	:	RM50,000,000.00
Issued and paid-up capital	:	RM43,000,500
Type of shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Holdings	Total Holdings	%
2	Less than 100	100	0.00
247	100 to 1,000 shares	222,200	0.52
888	1,001 to 10,000 shares	3,404,600	7.92
129	10,001 to 100,000 shares	3,260,200	7.58
8	100,001 to less than 5% of issued shares	4,276,400	9.95
3	5% and above of issued shares	31,837,000	74.04
1,277	Total	43,000,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.43
2. Samuel Lim Syn Soo	20,825,000 *	48.43
3. Lembaga Tabung Haji	8,462,000	19.68
4. Wong Tee Kim @ Wong Tee Fatt	2,550,000	5.93

* Deemed interest by virtue of his substantial shareholdings in Sunright Limited.

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

Shares in the Company

Name of Director	Number of Shares Held		Deemed Interest	%
	Direct	%		
1. Samuel Lim Syn Soo	-	-	20,825,000*	48.43
2. Kenneth Tan Teoh Khoon	-	-	-	-
3. Lim Mee Ing	-	-	-	-
4. Dato' Dr. Norraesah Haji Mohamad	613,000**	1.43	-	-
5. Ahmad Riza Bin Basir	-	-	-	-
6. Tuan Haji Zakariah Bin Yet	-	-	-	-
7. Yong Chee Hou	-	-	-	-

* Deemed interest by virtue of his substantial shareholdings in Sunright Limited.

** 605,500 shares held through ABB Nominee (Tempatan) Sdn Bhd.

Shareholders' Information

As at 30 September 2005

Shares in Related Corporation

KESM Test (M) Sdn Bhd

Name of Director	Direct	Number of Shares Held		
		%	Deemed Interest	%
Samuel Lim Syn Soo	-	-	692,308*	34.62
	-	-	1,307,692**	65.38

KESP Sdn Bhd

Name of Director	Direct	Number of Shares Held		
		%	Deemed Interest	%
Samuel Lim Syn Soo	-	-	1,200,000**	100

* Deemed interest by virtue of his substantial shareholdings in Sunright Limited.

** Deemed interest by virtue of his substantial shareholdings in KESM Industries Berhad.

EXECUTIVES' SHARE OPTION SCHEME ("ESOS")

The following Directors are deemed to have interest in the shares of the Company by virtue of options granted under the Company's ESOS.

Name of Directors	Exercise Price	Options granted to subscribe for ordinary shares of RM1 each
1. Samuel Lim Syn Soo	RM2.192*	50,000*
	RM2.464*	50,000*
	RM2.344*	50,000*
	RM3.10	34,000
	RM2.50	20,000
		<u>204,000</u>
2. Kenneth Tan Teoh Khoon	RM2.192*	50,000*
	RM2.464*	50,000*
	RM2.344*	50,000*
	RM3.10	34,000
	RM2.50	20,000
		<u>204,000</u>

* Adjusted to include the effect of bonus issue of shares of 3 for 2 existing shares made on 4 December 2002 by the Company.

Shareholders' Information

As at 30 September 2005

THIRTY LARGEST SHAREHOLDERS

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.43
2. Lembaga Tabung Haji	8,462,000	19.68
3. Wong Tee Kim @ Wong Tee Fatt	2,550,000	5.93
4. Tan Teong Siew	2,057,500	4.78
5. ABB Nominee (Tempatan) Sdn Bhd - Pledged Securities Account for Dato' Dr. Norraesah Haji Mohamad	605,500	1.41
6. BHLB Trustee Berhad for TA Small Cap Fund	486,200	1.13
7. Employees Provident Fund Board	433,400	1.01
8. BHLB Trustee Berhad for TA Comet Fund	322,300	0.75
9. RHB Nominees (Asing) Sdn Bhd - GK Goh SPL for Lim Bee Tin	137,500	0.32
10. Tan Jin Tuan	120,000	0.28
11. Wong Yoke Fong @ Wong Nyok Fing	114,000	0.27
12. Soo Chern Chin @ Soo Chai	97,400	0.23
13. Lim Siew Geok	95,000	0.22
14. Citigroup Nominees (Tempatan) Sdn Bhd - Pledged Securities Account for Susy Ding	90,400	0.21
15. Capital Dynamics Asset Management Sdn Bhd	70,000	0.16
16. Allianz Life Insurance Malaysia Berhad	67,500	0.16
17. Bin Bin Knitwear Manufacturer Sdn Bhd	65,000	0.15
18. Wong Yoon Tet	60,000	0.14
19. Mrs Tan Jin Siew Nee Yip Sow Har	60,000	0.14
20. Lee Siew Lin	59,000	0.14
21. Ter Kham Ee	55,000	0.13
22. Lee Hau Hian	54,000	0.13
23. Tan Chap Thong Sdn Bhd	50,000	0.12
24. Wee Pock Soon @ Ho Pock Soon	50,000	0.12
25. Wong Ban Sun	50,000	0.12
26. Tan Teng Boo	50,000	0.12
27. Simon Wong Yoon Thye	50,000	0.12
28. Wong Yoon Chyuan	50,000	0.12
29. Mayban Nominees (Tempatan) Sdn Bhd - Capital Dynamics Asset Management Sdn Bhd for Perkasa Trading Sdn Bhd	48,000	0.11
30. RHB Capital Nominees (Tempatan) Sdn Bhd for Teng Lung Sing	43,500	0.10
Total	37,278,200	86.69

Group Properties

As at 31 July 2005

Location	Description / Existing use	Date of Last Revaluation	Tenure	Approximate Land Area / Built-up Area (sq m)	Approximate Age Of Building (Years)	Net Book Value (RM'000)
KESM Industries Berhad						
Lot 4, Kawasan MIEL Phase 1 Sungei Way Free Industrial Zone Jalan SS8/4 Selangor Darul Ehsan	Industrial land / Factory and Office premises	10 Jun 2004	No individual qualified title has been issued yet Note (a)	5,064 / Phase I – 2,315 Phase II – 3,169 Phase III – 3,345	Phase I - 9 Phase II - <7 Phase III - <8	3,500 / Phase I – 2,565 Phase II – 3,325 Phase III – 4,085
Factory Lot Nos. A5 and A6 Kawasan MIEL Batang Kali Phase II Selangor Darul Ehsan	Industrial land / Factory and Office premises	17 Jun 2004	Leasehold for 60 years expiring on 13 Oct 2052	2,753 / 879	14	314 / 504
KESP Sdn. Bhd.						
Plot 253 Jalan Kampong Jawa Bayan Lepas Free Industrial Zone (Phase 3) Penang	Industrial land / Factory and Office premises	22 Jun 2004	Leasehold for 60 years expiring on 7 Aug 2045	8,085 / 11,617	Phase I – 13 Phase II – 9 Phase III – 6	2,636 / 9,613
42-17-19 Desa Green, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	16	102
42-15-12A Desa Green, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	16	102
15-4-7 Kota Nibong, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	13	102
15-7-4 Kota Nibong, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	13	102
Block 16-3A-3 Taman Seri Nibong, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	12	107
Block 18-9-11 Taman Seri Nibong, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	12	112
33-11-21 Taman Pekaka, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	9	102
Block 16-1-3 Taman Seri Nibong, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	12	108
Block 18-6-5 Taman Seri Nibong, Penang	3-bedroom apartment / employees' hostel	22 Jun 2004	Freehold	65.03	12	113

Note: -

- (a) Malaysian Industrial Estates Sendirian Berhad, the developer of the industrial land, has indicated that the land title when issued will be leasehold for a period of 99 years.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Thirty-Fourth Annual General Meeting of the Company will be held at Serunai Suite 1, 1st Floor East Wing, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Thursday, 5 January 2006 at 10.30 a.m. for the following purposes: -

AGENDA

- | | |
|---|--------------|
| 1. To receive the Audited Financial Statements for the financial year ended 31 July 2005 together with the reports of the Directors and of the Auditors thereon. | Resolution 1 |
| 2. To declare a first and final tax exempt dividend of 1.75 sen per share in respect of the financial year ended 31 July 2005. | Resolution 2 |
| 3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2005. | Resolution 3 |
| 4. To re-elect the following Directors retiring pursuant to Article 80 of the Company's Articles of Association and being eligible, offer themselves for re-election: - | |
| (a) Mr Samuel Lim Syn Soo. | Resolution 4 |
| (b) Tuan Haji Zakariah Bin Yet. | Resolution 5 |
| 5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. | Resolution 6 |
| 6. As Special Business: - | |

To consider and if thought fit, pass the following Resolutions as Ordinary Resolutions:-

(a) ORDINARY RESOLUTION NO. 1

Authority to issue shares by Company pursuant to Section 132D of the Companies Act, 1965

"THAT pursuant to Section 132D of the Companies Act, 1965, and subject always to the approval of the relevant authorities, the Directors be and are hereby empowered to issue shares in the Company, from time to time to such persons and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit, provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being, and that the Directors be and are also empowered to obtain the approval for the listing of and quotation for the additional shares so issued on Bursa Malaysia Securities Berhad and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company."

Resolution 7

Notice of Annual General Meeting

(b) ORDINARY RESOLUTION NO. 2

Authority to allot shares pursuant to the Executives' Share Option Scheme

“THAT subject always to the approval of the relevant authorities, authority be and is hereby given to the Directors to issue shares in the capital of the Company at any time upon such terms and conditions and for such purposes as the Directors, may, in their discretion, deem fit including but not limited to such shares as may be issued pursuant to the exercise of the options under the Executives' Share Option Scheme as approved by an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 7 September 2000 provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 10% of the issued share capital of the Company for the time being.”

Resolution 8

7. To transact any other business which may be properly transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy/proxies who may but need not be a member/members of the Company to attend and vote in his/her stead and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. When a member appoints two or more proxies the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his/her attorney duly authorized in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorized.
4. The instrument appointing a proxy must be deposited at the Registered Office at 312, 3rd Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

EXPLANATORY NOTES ON SPECIAL BUSINESS

(a) Resolution pursuant to Section 132D of the Companies Act, 1965

The proposed Resolution No. 7 will give powers to the Directors to issue up to a maximum ten per centum (10%) of the issued share capital of the Company for the time being for such purposes as the Directors would consider in the interest of the Company.

This authority, unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

Notice of Annual General Meeting

EXPLANATORY NOTES ON SPECIAL BUSINESS (CONTD.)

(b) Resolution pursuant to the Executives' Share Option Scheme

The proposed Resolution No. 8 authorises the Directors to issue shares in the Company upon the exercise of the options under the Executives' Share Option Scheme up to an aggregate amount not exceeding 10% of the issued share capital of the Company for the time being.

This authority, unless revoked or varied at a general meeting, will expire at the next Annual General Meeting of the Company.

BY ORDER OF THE BOARD
LEONG OI WAH (MAICSA 7023802)
Company Secretary

Kuala Lumpur
28 October 2005

Notice of Dividend Entitlement

NOTICE IS HEREBY GIVEN that the First and Final Tax Exempt Dividend of 1.75 sen per share in respect of the financial year ended 31 July 2005, if approved at the forthcoming Annual General Meeting, will be paid on 23 January 2006 to Depositors registered in the Record of Depositors on 9 January 2006. A Depositor shall qualify for entitlement only in respect of:

- a) Shares transferred into the Depositor's securities accounts before 4.00 p.m. on 9 January 2006, in respect of ordinary transfers; and
- b) Shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

BY ORDER OF THE BOARD
LEONG OI WAH (MAICSA 7023802)
Company Secretary

Kuala Lumpur
28 October 2005

Statement Accompanying Notice of Annual General Meeting

1. The names of Directors who are standing for re-election: -

- (a) Mr. Samuel Lim Syn Soo
- (b) Tuan Haji Zakariah Bin Yet

2. The details of attendance of directors at board meetings

Total of six (6) meetings were held during the financial year ended 31 July 2005. Details of attendance of each Director are set out on page 8 of the Annual Report.

3. The place, date and hour of the 34th Annual General Meeting

Place : Serunai Suite 1
1st Floor East Wing
Hilton Petaling Jaya
No. 2 Jalan Barat
46200 Petaling Jaya
Selangor Darul Ehsan
Malaysia

Date & Time : Thursday, 5 January 2006 at 10:30 a.m.

4. Further details of Directors who are standing for re-election.

The details of the Directors are set out on pages 4 to 7 of the Annual Report.

Proxy Form

I / We _____ (Full Name in Block Letters) of _____ (Address)

being a member / members of KESM Industries Berhad hereby appoint

Name	Address	NRIC / Passport Number	Proportion of Shareholdings (%)

and / or (delete as appropriate)

Name	Address	NRIC / Passport Number	Proportion of Shareholdings (%)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the Thirty-Fourth Annual General Meeting of the Company to be held at Serunai Suite 1, 1st Floor East Wing, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Thursday, 5 January 2006 at 10.30 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the meeting as indicated hereunder. If no specific direction as to voting is given or in the event of any item arising not summarized below, my/our proxy/proxies may vote or abstain from voting at his/her discretion.

No.	Resolutions	For*	Against*
1.	Receive Directors' Report, Audited Financial Statements and Auditors' Report		
2.	Approval of first and final dividend		
3.	Approval of Directors' fees		
4.	Re-election of Mr. Samuel Lim Syn Soo as Director		
5.	Re-election of Tuan Haji Zakariah Bin Yet as Director		
6.	Re-appointment of Auditors		
7.	Approval to issue shares pursuant to Section 132D of the Companies Act, 1965		
8.	Approval to allot shares pursuant to Executives' Share Option Scheme		

* Please indicate your vote "For" or "Against" with an "X" within the box provided.

Total Number of Shares Held	
------------------------------------	--

Signed this _____ day of _____ 2005 / 2006

Signature/Common Seal of Shareholder(s)



Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy / proxies who may but need not be a member / members of the Company to attend and vote in his / her stead and Section 149(1)(b) of the Companies Act, 1965 shall not apply.
2. When a member appoints two or more proxies the appointments shall be invalid unless he / she specifies the proportions of his / her holdings to be represented by each proxy.
3. The instrument appointing a proxy shall be in writing under the hand of the appointer or his / her attorney duly authorized in writing or, if the appointer is a corporation, either under its common seal or under the hand of an officer or attorney duly authorized.
4. The instrument appointing a proxy must be deposited at the Registered Office at 312, 3rd Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

Fold here

Affix
postage
here

The Company Secretary
KESM INDUSTRIES BERHAD (13022-A)
312, 3rd Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA

Fold here

KESM INDUSTRIES BERHAD (13022-A)

Lot 4, Jalan SS 8/4, Sungei Way Free Industrial Zone
47300 Petaling Jaya, Selangor Darul Ehsan, Malaysia

Tel: (03) 7874 0000 Fax: (03) 7875 8558