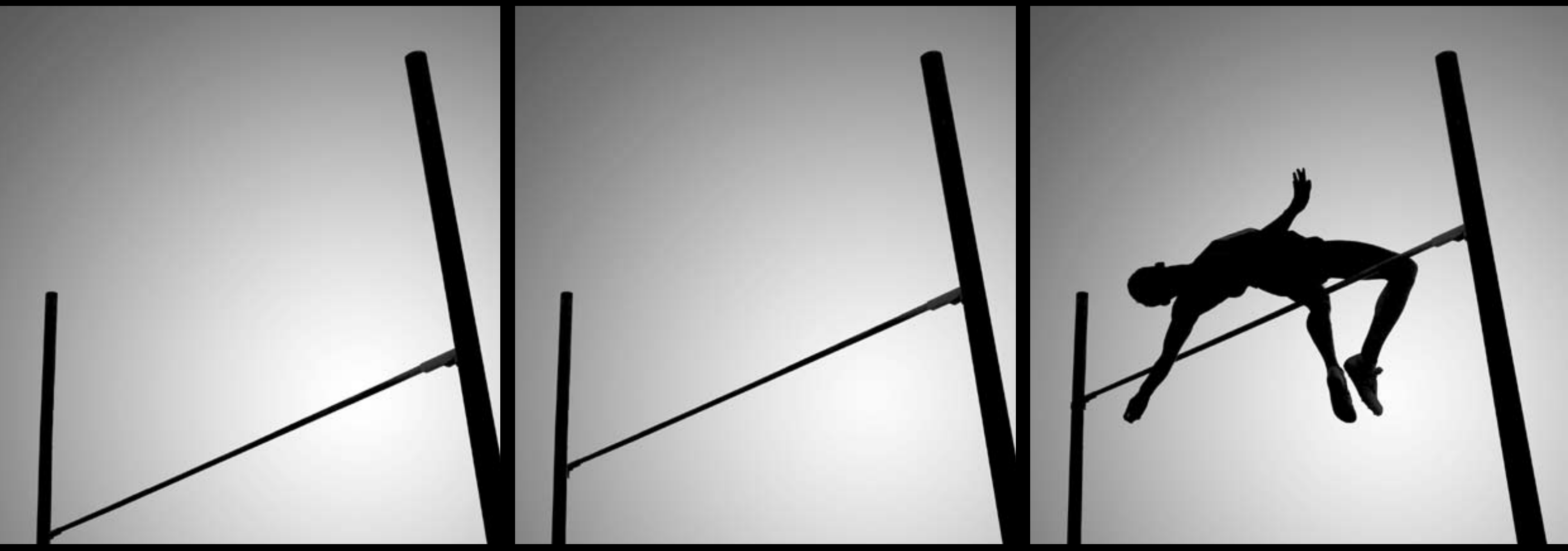
KESM 2010

KESM INDUSTRIES BERHAD (13022-A)
Annual Report 2010

RAISING THE BAR



A Member Of

SUNRIGHT

KESM

A WORLD-CLASS COMPANY RECOGNIZED FOR UNPARALLELED QUALITY SERVICE

DSCC

TS 16949

QS9000

RoHS

ISO 9001 : 2008

Contents

CHAIRMAN'S STATEMENT

> "Over the last three decades, our reputation for manufacturing excellence, planning, logistics and execution has earned us due recognition from our customers who value KESM's ability to consistently deliver products on time and with the right quality."

Dear fellow shareholders,

Our 2010 results represented another remarkable year of achievements. We raised our annual revenue to a new level. We gained market share. We added new customers and maintained our leading position in the industry.

The financial year 31 July 2010 ("FY 2010") ended with record sales of RM225.1 million as compared to RM169.3 million last year. The Group achieved a profit after tax of RM14.0 million which increased by 24 percent from RM11.3 million a year ago.

We surpassed the RM200 million mark in revenue. Nonetheless, we will not rest on our success of the past year. We will continue to aim higher. We will raise the bar. We will challenge ourselves to remain in the leading position by providing unparalleled quality services.

Financial Review & Operating Performance

Our formula for success is simple: remain focused on meeting our customers' needs, delivering the right services promptly with the right quality and at the right price. KESM serves the world's leading semiconductor manufacturers, who are leaders in making micro chips. Their business covers a wide market spectrum, including the expanding automotive, personal computers and communication markets. We ensure the functionality and reliability of semiconductor chips before they are assembled into finished products. This continuous fundamental requirement forms the basis of our business. Last year, KESM accomplished burn-in and tests in excess of 500 million devices.

The semiconductor industry rebounded sharply at the start of the fiscal year.

Demands from our customers outpaced our production levels and challenged our efforts to meet their needs. Our test operations responded positively, putting in round-the-clock effort to push beyond their weekly commitments and delivered beyond their output targets. They achieved impressive cycle time, productivity improvements and accomplished record profit performance. However, their efforts were curbed by the tight labour market which constrained the burn-in service performance. We urgently recruited new employees, trained and qualified them to meet exacting manufacturing standards. All these were achieved under tremendous time constraint. These, inadvertently raised our expenses without compromising our service quality. We applaud our employees for their dedication in meeting the changing requirements of our customers' needs.

Throughout FY 2010, we focused on building up production capacity to meet an increasing demand of new devices, which are more advanced requiring a tighter control of our process quality. In addition to our test services, we also installed burn-in systems in Tianjin, China to be an "exact copy" of our facility in Petaling Jaya, Malaysia. This expansion was carried out within a short time frame much to the delight of our customer. It has since earned the quality certification and passed numerous audits conducted by our customers as well as their end customers. This is the hallmark of our manufacturing service excellence.

Our Electronics Manufacturing Service ("EMS") business has also benefited from the rebound in the global semiconductor industry, resulting in a higher capacity utilization, increased revenue and an expansion of our customer base. Faster time-to-market is our competitive advantage providing complete turnkey service, which is lead free and in full compliance with Restriction of Hazardous Substances Directive or RoHS, promoting an eco-friendly environment.

Raising the Bar

Our work is not done. We continue to raise the bar of excellence. Our customers deserve the best. Over the last three decades, our reputation for manufacturing excellence, planning, logistics and execution has earned us due recognition from our customers who value KESM's ability to consistently deliver products on time and with the right quality.

Customers are relying on us to work with them for many of their "new product" designs to ensure timely completion and getting them into high volume production in the most cost efficient and effective manner. We are expected to improve our process quality to increase production yield. These constant challenges compel us to raise our standard through continual improvement programs which are designed to place emphasis on quality excellence. Our focus on quality excellence is relentless. We must keep this momentum of drive as we continue to lead as a world class service provider.

Our major customers have reported continued growth in their revenue. They are challenged by new opportunities and competitive demands in the industry which will advance their innovations of new product designs. KESM is working at a faster pace as well as offering seamless integration of our services. It is not enough to stay in the leading position. KESM aims to set new operational standards.

Moving Into 2011

We enter 2011 with revitalized momentum and an energized team, determined to

CHAIRMAN'S STATEMENT

create opportunities and grow our business. Indeed, we have a lot of hard work ahead of us. Our focus on strengthening our leadership and improving our execution remains unchanged.

Leading indicators have raised production forecasts for personal computers, mobile phones, automotive and consumer products. Growth in these market segments will continue to drive the demand for semiconductor chips higher, positively impacting the semiconductor industry which is expecting another year of growth in 2011, with revenue surpassing the US$300 billion mark.

Dividend

The Board has recommended a first and final tax exempt dividend of 3.0 sen per share. The proposed first and final dividend, if approved by shareholders at the forthcoming Annual General Meeting, will be paid on 24 January 2011.

Appreciation

Overall, KESM performed well in FY 2010. We have built our strong foundation as a leading player and our market leadership has been strengthened. We are especially grateful to our stakeholders for their growing confidence in us. We also accord special thanks to our employees for running that extra mile to make all these possible. Let's keep up the good work, and together, we shall look forward to many good years ahead.

I would also like to thank my colleague, Encik Ahmad Riza Bin Basir for his contributions to KESM. He is retiring from his position as Independent Non-Executive Director and Audit Committee member. I wish him all the best as he moves on to the next chapter in his career.

SAMUEL LIM SYN SOO
Executive Chairman & Chief Executive Officer
4 October 2010

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

Encik Ahmad Riza Bin Basir
Member

Mr. Yong Chee Hou
Member

Company Secretaries
Ms. Leong Oi Wah (MAICSA 7023802)
Ms. Tai Li Ching (MAICSA 7053542)

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

Registrars
Symphony Share Registrars Sdn Bhd
Level 6, Symphony House
Block D13, Pusat Dagangan Dana 1,
Jalan PJU 1A/46
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel: 03-7841 8000
Fax: 03-7841 8008
Email: ssrs@symphony.com.my

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
Main Market

Stock Name
KESM

Bursa Securities Stock No.
9334

Website
www.kesmi.com

BOARD OF DIRECTORS

From top, left to right:
Mr. Samuel Lim Syn Soo, Mr. Kenneth Tan Teoh Khoon,
Ms. Lim Mee Ing, Dato' Dr. Norraesah Haji Mohamad, Encik Ahmad Riza Bin Basir,
Tuan Haji Zakariah Bin Yet, Mr. Yong Chee Hou

MR. SAMUEL LIM SYN SOO

Aged 56, 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 holds a Diploma in Industrial Engineering (Canada) and has more than 38 years of experience in the semiconductor and electronics industry. Prior to the establishing of KESM Industries Berhad, Mr. Lim held senior positions including engineering, manufacturing and marketing in U.S. multinational companies. As one of the local pioneers in the semiconductor industry, Mr. Lim received 4 U.S. patents in recognition of his inventions in various solutions involving "Burn-in and test". 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's holdings in the securities of the Company are as follows: -

	Direct Holdings	Indirect Holdings
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	216,800	Nil

MR. KENNETH TAN TEOH KHOON

Aged 53, Singaporean
Non-Independent Executive Director

Mr. Tan was appointed to the Board on 20 January 1992. He is responsible for the Group's strategic direction, new business initiatives, investor relations and overseeing the financial management of the Group. He is also a member of the 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 Boards of several other private limited companies in Singapore, Malaysia, Taiwan, China, Philippines, USA and Thailand.

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

	Direct Holdings	Indirect Holdings
Share options of RM1.00 each	216,800	Nil

BOARD OF DIRECTORS

MS. LIM MEE ING

Aged 59, 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.

DATO' DR. NORRAESAH HAJI MOHAMAD

Aged 62, 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 38 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 Non-Executive Chairman of Penang Bridge Sdn. Bhd., Executive Chairman of MyEG Services Berhad and Embunaz Ventures Sdn Bhd and also sits on the Boards of Adventa Berhad, Ya Horng Electronic (M) Berhad, Protasco Berhad and SBC Corporation Berhad, all listed on 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 Holdings	Indirect Holdings
Ordinary shares of RM1.00 each	7,500	Nil

ENCIK AHMAD RIZA BIN BASIR

Aged 50, Malaysian
Independent Non-Executive Director

Encik Ahmad Riza was appointed to the Board on 28 July 1994 and is also a member of the Audit Committee of the Company. Encik Ahmad Riza Bin Basir is a lawyer by training. He graduated with Bachelor of Law (Honours) degree from the University of Hertfordshire, Hertford, United Kingdom and Barrister-At-Law (Lincoln's Inn), London in 1984 and was called to the Malaysian Bar in 1986.

Encik Riza is currently the Chairman of Algotech (M) Sdn Bhd, a Director of Jerneh Asia Berhad, Jerneh Insurance Berhad, Manulife Holdings Berhad, Manulife Insurance Berhad, United Plantations Berhad and EON Capital Berhad. He also sits on the Boards of several other private limited companies in Malaysia.

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN

Aged 55, 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 and Human Resource Development and Quality.

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 Haji Management 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 54, 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 the Malaysian Institute of Accountants. He has spent over 9 years in the 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 Syn Soo.

2. CONFLICT OF INTEREST

None of the Directors have any conflict of interest with the Company.

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 2010

Name of Directors	No. of Meetings Attended	Percentage %
Mr. Samuel Lim Syn Soo	5 out of 5	100
Mr. Kenneth Tan Teoh Khoon	5 out of 5	100
Ms. Lim Mee Ing	5 out of 5	100
Dato' Dr. Norraesah Haji Mohamad	5 out of 5	100
Encik Ahmad Riza Bin Basir	3 out of 5	60
Tuan Haji Zakariah Bin Yet	4 out of 5	80
Mr. Yong Chee Hou	5 out of 5	100

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 2010 ("FY 2010").

MEMBERS AND TERMS OF REFERENCE

The Committee currently comprises the following directors: -

Chairman	:	Dato' Dr. Norraesah Haji Mohamad	Independent Non-Executive Director
Members	:	Encik Ahmad Riza Bin Basir	Independent Non-Executive Director
	:	Mr. Yong Chee Hou	Independent Non-Executive Director

and is governed by the following Terms of Reference:-

1. 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

c) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad ("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 and Executive Directors shall not be appointed as members of the Committee.

2. 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.

3. Chairman

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

4. 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.

5. Meetings

The Committee shall meet at least four (4) 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.

6. 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, 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.

7. 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.

8. 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;

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, the internal auditors or both, excluding the attendance of the executive members of the Committee, other directors and employees of the Company, 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.

9. 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) adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;

(f) the internal audit programme, processes, results of the internal audit programme, processes or investigations 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; and

(j) whether there is reason (supported by grounds) to believe that the Company's external auditor is not suitable for re-appointment.

(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.

(8) to verify, on an annual basis, the allocation of options under a share scheme for employees to ensure compliance with the allocation criteria determined by the Option Committee and in accordance with the By-Laws of the relevant Option Scheme.

(9) to undertake such other responsibilities as may be agreed to by the Board, or as may be required by law or the Listing Requirements.

10. Reporting Procedure

(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.

(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 15.15(3)(a) to (e) of the Listing Requirements of Bursa Securities.

AUDIT COMMITTEE'S REPORT

MEETINGS AND ATTENDANCE

The Committee met four (4) times in FY 2010. Other Board members, senior management staff and the company secretary attended 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 was as follows:

Name of Member	Designation	No. of Meetings attended	Percentage %
Dato' Dr. Norraesah Haji Mohamad	Chairman	4	100
Encik Ahmad Riza Bin Basir	Member	3	75
Mr. Yong Chee Hou	Member	4	100

During FY 2010, the Committee met with the external auditors twice excluding the attendance of other directors and employees to discuss the audited financial statements for the year ended 31 July 2009 and the audit plan for FY 2010.

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During FY 2010, the Committee: -

1. reviewed the external auditors' reports in relation to the audit for the year ended 31 July 2009.
2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2009 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 recurrent related party transactions of the Group to be presented to the Board of Directors for ratification and approval.
6. reviewed and approved the Internal Audit Plan.
7. reviewed and discussed the internal auditor's reports.
8. reviewed the external auditor's report on the Statement on Internal Control ("SIC") in respect of the financial year ended 31 July 2009 and presented the SIC to the Board of Directors for approval.
9. reviewed the Committee's Report in respect of the financial year ended 31 July 2009 and presented to the Board of Directors for approval.
10. reviewed and recommended proposed revisions to the Related Party Transactions Policy and Guidelines to the Board of Directors for approval.
11. reviewed the competency and effectiveness of the internal auditors.
12. discussed the Audit Plan for FY 2010 with the external auditors.

AUDIT COMMITTEE'S REPORT

INTERNAL AUDIT ACTIVITIES

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

The total cost incurred for the Group's internal audit function amounted to approximately RM64,000

EMPLOYEES SHARE OPTION SCHEME ("ESOS")

In FY 2010, there was no share option granted to the employees. Hence, no review was made by the Committee.

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 shareholders' 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 (Revised 2007) ("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. The profiles of each Director and other relevant information are set out in the "Board of Directors" and "Other Information on Directors" sections of this Annual Report.

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

Given the present structure and scale of the Group's businesses, the roles of the Chairman and Chief Executive Officer are not separated. The Board is of the view that an Executive Chairman, being knowledgeable about the businesses of the Group, could effectively guide discussions and ensure that the Board is properly briefed in a timely manner on pertinent issues and developments.

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 considers its current composition and size to be appropriate and effective, taking into account the nature and scope of the Group's operations.

Re-election

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election by rotation at least once in every three (3) years at each Annual General Meeting ("AGM"). Newly appointed directors shall hold office until the AGM following their appointment and shall then be eligible for re-election by shareholders.

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 five (5) occasions. The attendance of each individual director at these meetings are set out in the "Other Information on Directors" section of this Annual Report. All directors attended more than 50% of the Board meetings. Deliberations of the Board and the decisions made at the Board meetings are duly recorded by the Company Secretaries.

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 fulfilled his/her Continuing Education Programme obligations stipulated by Bursa Securities. The Directors are mindful that they should receive continuous training to broaden their perspectives and keep abreast with the new statutory and regulatory requirements. The Board views that this can be achieved through a mix of in-house training programme and external training programme that are deemed appropriate to aid them in the discharge of their duties as directors.

In financial year 2010, The Board except for Encik Ahmad Riza Bin Basir who was overseas, attended an in-house training titled "Directors' Key Obligation under the Listing Requirements of Bursa Malaysia Securities Berhad". Other than the aforesaid in-house training, the following directors had also attended the following training programs:

Director	Mode of Training	Title of Training	Duration of Training
Dato' Dr Norraesah Haji Mohamad	Talk	2010 Budget Updates and FRS 139 & FRS 7	3 hours
	Training	Latest Fraud Encountered by Board of Directors	7 hours
	Forum	Challenges of Implementing FRS 39	3 hours
Ahmad Riza Bin Basir	Conference	Subsea Asia 2010	1 day
Tuan Haji Zakariah Bin Yet	Training	TH Corporate Directors' Training	2 days
	Seminar	Pelaksanaan Pelan Tindakan	1 day
	Training	Strategic Human Resource Planning	3 days
Yong Chee Hou	Conference	National Accountants Conference	2 days

From time to time during the normal proceedings of the meetings, the Directors also received updates and briefings, particularly on regulatory and industry developments, relevant new laws and changes to the accounting standards, from the management, company secretary 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, whether as a full board or in their individual capacity.

Prior to each Board and Audit Committee meeting, every director is given agenda and relevant papers containing reports and information 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 secretary. Where required and in appropriate circumstances, the directors are allow to take professional advice at the Company's expense.

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 appointment of Director 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 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. In determining the directors' remuneration, the Board made reference to comparable companies in similar industry, market trends and the performance of the Group. The remuneration package for executive directors is determined after taking into account the Group's performance and market trends. All the directors are paid a basic fee and additional fees for serving on Board committee and chairmanship. Such fees are subject to approval by the shareholders at AGM. For the year under review, none of the directors received fees of more than RM50,000 each.

Disclosure on directors' remuneration can be found on Note 6 of the audited financial statements included in this Annual Report. The Code recommends detailed disclosure to be made for each director's remuneration. However, the Board is of the view that the transparency and accountability are not compromised by the band disclosure as permitted in the Listing Requirements of Bursa Securities.

AUDIT COMMITTEE

The composition and terms of reference of this Committee together with its report are set out in the "Audit Committee's Report" section 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 reports 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 described in the "Audit Committee's Report" and "Statement on Internal Control" sections of this Annual Report.

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 in Malaysia so as to give a true and fair view of the state of financial position of the Group and of the Company and of the results and the 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 in Malaysia.

The Directors also have a general responsibility 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 in 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 applicable approved accounting standards in Malaysia.

The Audit Committee has direct and unrestricted access to the internal and external auditors. The role of the Audit Committee in relation to the auditors is described in the "Audit Committee's Report" section of this Annual Report.

CORPORATE GOVERNANCE STATEMENT

RELATIONSHIP 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/or Extraordinary General Meeting provide 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 AGM 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 non-establishment of the Nomination Committee and Remuneration Committee, the Board considers that the Company has substantially complied with the Best Practices as set out in the Code for the financial year ended 31 July 2010.

This statement is made in accordance with the resolution of the Board of Directors at its meeting held on 17 September 2010.

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

No options were exercised pursuant to the Company's Employees 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 received 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

This Statement on Internal Control by the Board is made pursuant to Paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad. It outlines the nature and scope of internal control of the Group during the financial year under review.

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 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.

KEY ELEMENTS OF INTERNAL CONTROL

The key internal control structures of the Group are described below.

The Group's internal audit function is outsourced to a public accounting firm of international standing. The internal audit function facilitates the Board in its reviews of and evaluation of the adequacy and integrity of the Group's internal control systems.

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. Audits are carried out according to the annual audit plan approved by the Audit Committee. The resulting reports from the annual audits undertaken are presented to the Audit Committee at its regular meetings. Board members are invited when the Audit Committee meets to review, discuss, and direct actions on matters pertaining to reports, which among other matters, include findings relating to the adequacy and integrity of the internal control system of the Group. After the Audit Committee had deliberated on the reports, these are then forwarded to the operational management for attention and necessary actions. The operational management is responsible for ensuring recommended corrective actions on reported weaknesses were taken within the required time frame.

The annual internal audits therefore provide the Board with an independent assessment 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.

Apart from internal audit, the Board has 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.

STATEMENT ON INTERNAL CONTROL

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.

The Group's internal control procedures are set out in a series of standard operating practice manuals and business process manuals, to serve as 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 20 September 2010.

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 financial year ended 31 July 2010.

Principal activities

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. 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 financial year.

Results

	Group RM'000	Company RM'000
Profit for the year	14,020	3,223
Attributable to:		
Equity holders of the Company	11,746	3,223
Minority interests	2,274	-
	14,020	3,223

There were no material transfers to or from reserves or provisions during the year.

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 2 February 2010, the Company paid a first and final tax exempt dividend of 3 sen (2009: 3 sen) per share amounting to RM1,290,435 (2009: RM1,290,435), as proposed by the Directors and approved by shareholders in the last annual general meeting of the Company.

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2010, of 3 sen per ordinary shares amounting to RM1,290,435 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 earnings in the financial year ending 31 July 2011.

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 Khoon
Lim Mee Ing
Dato' Dr Norraesah Haji Mohamad
Ahmad Riza Bin Basir
Tuan Haji Zakariah Bin Yet
Yong Chee Hou

DIRECTORS' REPORT

Directors' benefits

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 the Company or any other body corporate, other than those arising from share options granted pursuant to the Company's Employees Share Option Scheme.

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 6 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 the Director is a member or with a company in which the Director has a substantial financial interest, except as disclosed in Note 6 to the financial statements.

Directors' interests

According to the register of directors' shareholdings, the interest of Directors in office at the end of the financial year in shares and options over shares in the Company were as follows:

	Number of ordinary shares of RM1.00 each			
	At 1.8.2009	Acquired	Sold	At 31.7.2010
Direct interest:				
Dato' Dr Norraesah Haji Mohamad	7,500	-	-	7,500
Deemed interest				
Samuel Lim Syn Soo	20,825,000	-	-	20,825,000

		Options to subscribe for ordinary shares of RM1.00 each			
	Option Price	At 1.8.2009	Granted	Exercised	At 31.7.2010
Samuel Lim Syn Soo					
First Option*	RM2.19	50,000	-	-	50,000
Second Option*	RM2.46	50,000	-	-	50,000
Third Option*	RM2.34	50,000	-	-	50,000
Fourth Option	RM3.10	34,000	-	-	34,000
Fifth Option	RM2.50	20,000	-	-	20,000
Sixth Option	RM1.93	12,800	-	-	12,800
Kenneth Tan Teoh Khoon					
First Option*	RM2.19	50,000	-	-	50,000
Second Option*	RM2.46	50,000	-	-	50,000
Third Option*	RM2.34	50,000	-	-	50,000
Fourth Option	RM3.10	34,000	-	-	34,000
Fifth Option	RM2.50	20,000	-	-	20,000
Sixth Option	RM1.93	12,800	-	-	12,800

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

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

Other than as disclosed above, none of the other Directors in office at the end of the financial year had any interest in shares or options over shares in the Company or its related corporations during the financial year.

DIRECTORS' REPORT

Employees share option scheme ("ESOS")

The extension of duration of the Company's ESOS for eligible full-time employees and directors of the Company and its subsidiary companies and amendments to certain clauses in the By-Laws were approved by shareholders at an Extraordinary General Meeting held on 21 November 2005. The ESOS has been extended for a period of five (5) years expiring on 4 December 2010.

The maximum number of new shares which may be subscribed on the exercise of options granted under the ESOS shall not, in aggregate, exceed fifteen percent (15%) 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 By-Laws of the ESOS and shall be the higher of:

(a) the weighted average market price of the shares of the Company for the five (5) market days immediately preceding the date of offer with a discount of not more than 10%, if deemed appropriate; 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.

The particulars of the options granted to eligible employees as at 31 July 2010 are as follows:

	Date of Grant	Option Price RM	<— Number of Options				—>
			Granted	Accepted	Exercised	Lapsed	Total available
First Option*	6/12/2000	2.19	1,001,000	997,000	(391,500)	(214,500)	391,000
Second Option*	17/4/2002	2.46	462,000	461,000	(40,000)	(43,500)	377,500
Third Option*	24/9/2002	2.34	460,000	456,000	(38,000)	(73,500)	344,500
Fourth Option	23/4/2004	3.10	312,800	297,800	-	(48,000)	249,800
Fifth Option	23/3/2005	2.50	168,000	151,000	-	(33,000)	118,000
Sixth Option	15/11/2005	1.93	160,000	138,200	(9,000)	(36,400)	92,800
			2,563,800	2,501,000	(478,500)	(448,900)	1,573,600

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

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 no provision for doubtful debts was necessary; and

(ii) to ensure that any current assets which were unlikely to realise their values 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.

Other statutory information (cont'd.)

(b) At the date of this report, the Directors are not aware of any circumstances which would render:

  (i) the amount written off for bad debts or the amounts of provision for doubtful debts in the financial statements of the Group and 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 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; and

  (ii) 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.

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 20 September 2010.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

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 77 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2010 and of their financial performance and 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 20 September 2010.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

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 accompanying financial statements set out on pages 32 to 77 are, to the best of my knowledge and belief, correct and I make this solemn declaration by virtue of the provisions of the Oath and Declarations Act (Chapter 211), and subject to the penalties provided by that Act for the making of false statements in statutory declarations, conscientiously believing the statements contained in this declaration to be true in every particular.

Declared at Singapore this 13 October 2010

Kenneth Tan Teoh Khoon

Before me,

INDEPENDENT AUDITORS' REPORT

to the members of KESM Industries Berhad (Incorporated in Malaysia)

Report on the financial statements

We have audited the financial statements of KESM Industries Berhad, which comprise the balance sheets as at 31 July 2010 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 77.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2010 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

INDEPENDENT AUDITORS' REPORT
to the members of KESM Industries Berhad (Incorporated in Malaysia)

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act, 1965 ("Act") in Malaysia, we also report the following:

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.

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

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

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Wong Lai Wah
No. 1956/04/11(J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 September 2010

INCOME STATEMENTS
for the year ended 31 July 2010

	Note	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Revenue	4	225,142	169,315	50,999	41,862
Other operating income		4,452	3,100	3,840	3,741
Total operating income		229,594	172,415	54,839	45,603
Raw materials and consumables used		(69,381)	(44,108)	(621)	(692)
Employee benefits expense	5	(48,900)	(34,460)	(20,568)	(13,118)
Depreciation of property, plant and equipment	12	(42,472)	(46,944)	(9,304)	(9,583)
Impairment of property, plant and equipment	12	(177)	(177)	(177)	(177)
Amortisation of prepaid land lease payments	13	(145)	(142)	(79)	(78)
Other operating expenses		(48,854)	(35,244)	(21,747)	(16,666)
Profit from operating activities	6	19,665	11,340	2,343	5,289
Interest income	7	1,251	1,490	895	1,284
Finance costs	8	(1,513)	(2,382)	(275)	(488)
Profit before tax		19,403	10,448	2,963	6,085
Income tax expense	9	(5,383)	835	260	1,853
Profit for the year		14,020	11,283	3,223	7,938
Attributable to:					
Equity holders of the Company		11,746	9,757	3,223	7,938
Minority interest		2,274	1,526	-	-
		14,020	11,283	3,223	7,938
Earnings per share attributable to equity holders of the Company					
- Basic	10	27.3 sen	22.7 sen		
- Diluted	10	27.3 sen	22.7 sen		
Dividend per share in respect of the year	11			3.00 sen	3.00 sen

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

BALANCE SHEETS
as at 31 July 2010

	Note	Group		Company	
		2010	2009	2010	2009
		RM'000	RM'000	RM'000	RM'000
Assets					
Non-current assets					
Property, plant and equipment	12	150,707	123,324	47,960	31,444
Prepaid land lease payments	13	5,737	5,882	3,423	3,502
Subsidiary companies	14	-	-	26,054	21,573
Deferred tax assets	23	6,386	9,404	1,704	2,131
		162,830	138,610	79,141	58,650
Current assets					
Inventories	15	16,085	13,159	201	177
Trade and other receivables	16	62,835	44,356	44,825	39,064
Investment securities	17	7,204	8,213	7,204	8,213
Tax recoverable		538	1,001	537	662
Cash and bank balances	18	68,585	80,692	16,650	25,836
		155,247	147,421	69,417	73,952
Total assets		318,077	286,031	148,558	132,602
Equity and liabilities					
Equity attributable to equity holders of the Company					
Share capital	19	43,015	43,015	43,015	43,015
Reserves	20	167,724	158,520	76,300	74,367
		210,739	201,535	119,315	117,382
Minority interest		18,245	15,971	-	-
Total equity		228,984	217,506	119,315	117,382
Non-current liabilities					
Loans and borrowings	21	9,584	18,215	3,863	3,109
Deferred tax liabilities	23	3,583	4,581	1,704	2,516
		13,167	22,796	5,567	5,625
Current liabilities					
Trade and other payables	24	55,979	25,350	15,710	5,534
Loans and borrowings	21	19,260	20,379	7,966	4,061
Taxation		687	-	-	-
		75,926	45,729	23,676	9,595
Total liabilities		89,093	68,525	29,243	15,220
Total equity and liabilities		318,077	286,031	148,558	132,602

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 July 2010

	<— Attributable to equity holders of the Company					—>		
		<— Non-distributable		—>	Distributable			
	Share capital (Note 19) RM'000	Share premium (Note 20) RM'000	Foreign currency translation reserve (Note 20) RM'000	Asset revaluation reserve (Note 20) RM'000	Retained earnings (Note 20) RM'000	Total RM'000	Minority interest RM'000	Total equity RM'000
Group								
At 1 August 2008	43,015	663	664	7,658	134,318	186,318	14,445	200,763
Exchange difference arising on consolidation	-	-	1,493	-	-	1,493	-	1,493
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	9,757	9,757	1,526	11,283
Dividend (Note 11)	-	-	-	-	(1,290)	(1,290)	-	(1,290)
Revaluation increase of buildings	-	-	-	5,257	-	5,257	-	5,257
At 31 July 2009	43,015	663	2,157	12,915	142,785	201,535	15,971	217,506
Exchange difference arising on consolidation	-	-	(1,252)	-	-	(1,252)	-	(1,252)
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	11,746	11,746	2,274	14,020
Dividend (Note 11)	-	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 July 2010	43,015	663	905	12,915	153,241	210,739	18,245	228,984

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 July 2010

	<—— Non-distributable			——>	Distributable	
	Share capital (Note 19) RM'000	Share premium (Note 20) RM'000	Asset revaluation reserve (Note 20) RM'000	Merger relief reserve (Note 20) RM'000	Retained earnings (Note 20) RM'000	Total RM'000
Company						
At 1 August 2008	43,015	663	2,241	1,215	61,292	108,426
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	7,938	7,938
Dividend (Note 11)	-	-	-	-	(1,290)	(1,290)
Effect on deferred tax on asset revaluation	-	-	2,308	-	-	2,308
At 31 July 2009	43,015	663	4,549	1,215	67,940	117,382
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	3,223	3,223
Dividend (Note 11)	-	-	-	-	(1,290)	(1,290)
At 31 July 2010	43,015	663	4,549	1,215	69,873	119,315

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

CASH FLOW STATEMENTS
for the year ended 31 July 2010

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash flows from operating activities				
Profit before tax	19,403	10,448	2,963	6,085
Adjustments for:				
Depreciation of property, plant and equipment	42,472	46,944	9,304	9,583
Impairment of property, plant and equipment	177	177	177	177
Amortisation of prepaid land lease payments	145	142	79	78
(Gain)/loss on disposal of property, plant and equipment	(273)	(16)	2	-
Gain on disposal of quoted shares	(2,494)	(660)	(2,494)	(660)
Unrealised loss/(gain) on foreign exchange	1,573	(2,007)	2,147	(2,083)
Dividend Income	(310)	(219)	(310)	(219)
Interest income	(1,251)	(1,490)	(895)	(1,284)
Interest expense	1,513	2,382	275	488
Operating profit before working capital changes	60,955	55,701	11,248	12,165
Changes in working capital:				
Inventories	(2,926)	(5,114)	(24)	14
Receivables	(18,479)	(5,413)	(5,761)	7,334
Payables	15,890	(12,472)	3,963	(4,825)
Cash generated from operations	55,440	32,702	9,426	14,688
Tax paid	(2,213)	(1,569)	-	(556)
Interest paid	(1,513)	(2,382)	(275)	(488)
Interest received	1,251	1,490	895	1,284
Net cash generated from operating activities	52,965	30,241	10,046	14,928
Cash flows from investing activities				
Purchase of investment in quoted shares	(4,289)	(2,723)	(4,289)	(2,723)
Proceeds from disposal of quoted shares	7,792	1,413	7,792	1,413
Dividend income	310	219	310	219
Purchase of property, plant and equipment	(56,241)	(16,401)	(21,169)	(3,607)
Proceeds from disposal of property, plant and equipment	276	107	-	-
Investment in a subsidiary	-	-	(4,481)	-
Net cash used in investing activities	(52,152)	(17,385)	(21,837)	(4,698)

CASH FLOW STATEMENTS

for the year ended 31 July 2010

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities				
Payments of hire purchase obligations	(2,673)	(2,781)	(1,269)	(1,181)
Repayments of term loans	(18,169)	(17,625)	(2,941)	(2,173)
Drawdown of term loans	8,105	31,935	8,105	6,870
Dividend paid	(1,290)	(1,290)	(1,290)	(1,290)
Net cash (used in)/generated from financing activities	(14,027)	10,239	2,605	2,226
Net change in cash and cash equivalents	(13,214)	23,095	(9,186)	12,456
Effects of foreign exchange rate changes	1,107	(1,419)	-	-
Cash and cash equivalents at beginning of year	80,692	59,016	25,836	13,380
Cash and cash equivalents at end of year (Note 18)	68,585	80,692	16,650	25,836

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

1. Corporate information

KESM Industries Berhad ("the Company") is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 312, 3rd Floor, Block C, Kelana Square, No. 17, Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. 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 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 were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 20 September 2010.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia.

The financial statements have been prepared on the historical cost basis except for as disclosed in the accounting policies as below.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

2.2 Adoption of New Accounting Standard

On 1 August 2009, the Company adopted FRS 8 - Operating Segments, which came into effect on 1 July 2009.

FRS 8, which replaces FRS 114 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The Standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the reportable operating segments determined in accordance with FRS 8 are the same as the business segments previously identified under FRS 114. The Group has adopted FRS 8 retrospectively. These revised disclosures, including the related revised comparative information, are shown in Note 28 to the financial statements.

2. Summary of significant accounting policies (cont'd.)

2.3 Standard issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for financial periods beginning on or after
FRS 4 Insurance Contracts	1 January 2010
FRS 7 Financial Instruments: Disclosures	1 January 2010
FRS 101 Presentation of Financial Statements (Revised)	1 January 2010
FRS 123 Borrowing Costs	1 January 2010
FRS 139 Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
Amendments to FRS 2 Share-based Payment – Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 132 Financial Instruments: Presentation	1 January 2010
Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
Amendments to FRSs "Improvements to FRS (2009)"	1 January 2010
IC Interpretation 9 Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10 Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13 Customer Loyalty Programmes	1 January 2010
IC Interpretation 14 FRS119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010
TR i-3: Presentation of Financial Statements of Islamic Financial Institutions	1 January 2010
Amendments to FRS 132: Financial Instruments: Presentation, relating to Classification of Rights Issue	1 March 2010
FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
FRS 3 Business Combinations (revised)	1 July 2010
FRS 127 Consolidated and Separate Financial Statements	1 July 2010
Amendments to FRS 2 Share-based Payment	1 July 2010
Amendments to FRS 5 Non-current Assets Held for Sale and Discontinued Operations	1 July 2010
Amendments to FRS 138 Intangible Assets	1 July 2010
Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010
IC Interpretation 12 Service Concession Arrangements	1 July 2010
IC Interpretation 15 Agreements for the Construction of Real Estate	1 January 2012
IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
Amendments to FRS 1: Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters	1 January 2011
Improving Disclosures about Financial Instruments (Amendments to FRS 7)	1 January 2011
IC Interpretation 4 Determining Whether an Arrangement Contains a Lease	1 January 2011
IC Interpretation 18 Transfer of Assets from Customer	1 January 2011

2. Summary of significant accounting policies (cont'd.)

2.3 Standard issued but not yet effective (cont'd.)

The Directors expect that the adoption of the above pronouncements will have no material impact on the financial statements in the period of initial application, except for changes in disclosures arising from the adoption and amendments of FRS 7 and adoption of FRS 101, and changes in accounting policies arising from the adoption of revised FRS3 and FRS 127.

The Group and the Company are exempted from disclosing the possible impact, if any, to the financial statements upon initial application to FRS 139.

On 1 August 2009, the Group has early adopted Amendments to FRS 8 Operating Segments that is effective for annual financial periods beginning on or after 1 January 2010. Amendments to FRS 8 Operating Segments require the disclosures of total assets and liabilities for each reportable segment if such measures are regularly provided to the chief operating decision maker. Additional disclosures about each of the segments and key measures provided to chief operating decision maker are shown in Note 28.

FRS 3: *Business Combinations (revised) and FRS 127: Consolidated and Separate Financial Statements (amended)*

FRS 3 (revised) introduces a number of changes to the accounting for business combinations occurring on or after 1 July 2010. These include changes that affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

FRS 127 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and to be recorded in equity. Therefore, such transaction will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended Standard changes the accounting for losses incurred by the subsidiary as well as loss of control of a subsidiary.

The changes by FRS 3 (revised) and FRS127 (amended) will be applied prospectively and only affect future acquisition or loss of control of subsidiaries and transactions with non-controlling interests.

FRS 101: *Presentation of Financial Statements (revised)*

The revised FRS 101 separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will now include only details of transactions with owners. All non-owner changes in equity are presented as a single line labelled as total comprehensive income. The Standard also introduces the statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Company is currently evaluating the format to adopt. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the reclassification of items in the financial statements. This revised FRS does not have any impact on the financial position and results of the Company.

FRS 123: *Borrowing Costs (Revised)*

The Group's current accounting policies are consistent with the provision of FRS 123 Borrowing Costs (Revised).

2. Summary of significant accounting policies (cont'd.)

2.3 Standard issued but not yet effective (cont'd.)

FRS 139: *Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures and Amendments to FRS 139: Financial Instruments: Recognition and Measurement, FRS 7: Financial Instruments: Disclosures*

The new Standard on FRS 139: Financial Instruments: Recognition and Measurement establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Requirements for presenting information about financial instruments are in FRS 132: Financial Instruments: Presentation and the requirements for disclosing information about financial instruments are in FRS 7: Financial Instruments: Disclosures.

FRS 7: Financial Instruments: Disclosures is a new Standard that requires new disclosures in relation to financial instruments. The Standard is considered to result in increased disclosures, both quantitative and qualitative of the Group's and Company's exposure to risks, enhanced disclosure regarding components of the Group's and Company's financial position and performance, and possible changes to the way of presenting certain items in the financial statements.

In accordance with the respective transitional provisions, the Group and the Company are exempted from disclosing the possible impact to the financial statements upon the initial application.

Amendments to FRSs 'Improvements to FRSs (2009)'

FRS 7 Financial Instruments: Disclosures: Clarifies on the presentation of finance costs whereby interest income is not a component of finance costs.

FRS 107 Statement of Cash Flows (formerly known as Cash Flow Statements): Clarifies that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

FRS 108 Accounting Policies, Changes in Accounting Estimates and Errors: Clarifies that only implementation guidance that is an integral part of an FRS is mandatory when selecting accounting policies.

FRS 110 Events after the Reporting Period (formerly known as Events After the Balance Sheet Date): Clarifies that dividends declared after the end of the reporting period are not liabilities as at the balance sheet date.

FRS 123 Borrowing Costs: The definition of borrowing costs is aligned with FRS 139 by referring to the use of effective interest rate as a component of borrowing cost.

FRS 134 Interim Financial Reporting: Clarifies that earnings per share is to be disclosed in interim financial reports if an entity is within the scope of FRS 133: Earnings per Share.

FRS 136 Impairment of Assets: Clarifies that when discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'. The amendment further clarifies that the largest cash-generating unit for group of units to which goodwill should be allocated for purposes of impairment testing is an operating segment as defined in FRS 8.

2. Summary of significant accounting policies (cont'd.)

2.3 Standard issued but not yet effective (cont'd.)

Amendments to FRSs 'Improvements to FRSs (2009)' (cont'd.)

FRS 139 Financial Instruments: Recognition and Measurement: Clarifies that changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. It also clarifies on the scope exemption for business combination contracts. The amendments remove the reference in FRS 139 to a 'segment' when determining whether an instrument qualifies as a hedge and requires the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting. It also provides additional guidance on determining whether loan prepayment penalties result in an embedded derivates that needs to be separated. In addition, the amendments state that the gains or losses on a hedged instrument should be reclassified from equity to profit or loss during the period that the hedged forecast cash flows impact profit or loss.

IC Interpretation 10: *Interim Financial Reporting and Impairment*

This IC prohibits impairment losses recognised in an interim period on goodwill or investments in equity instruments or financial assets carried at cost to be reversed at a subsequent balance sheet date.

IC Interpretation 16: *Hedges of a Net Investment in a Foreign Operation*

This IC provides guidance on identifying foreign currency risks and hedging instruments that qualify for hedge accounting in the hedge of a net investment in a foreign operation. It also explains how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.

IC Interpretation 17: *Distributions of Non-cash Assets to Owners*

This IC provides guidance on the recognition and measurement of liabilities arising from dividends paid in the form of assets other than and clarifies that the dividend payable should measure at the fair value of the assets to be distributed. It also clarifies that the difference between the carrying amount of the assets distributed and the fair value of the dividend paid should be taken to income statement.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisitions of subsidiaries are accounted for using the purchase method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the balance sheet. Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition.

2. Summary of significant accounting policies (cont'd.)

2.4 Basis of consolidation (cont'd.)

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2.5 Transaction with minority interests

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit and loss of the Group and within equity of the consolidated financial statement, separately from parent shareholders' equity. Transactions with minority interests are accounted for using the entity concept method, whereby, transactions with minority interests are accounted for as transactions with owners. On acquisition of minority interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to minority interests is recognised directly in equity.

2.6 Foreign currency

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Ringgit Malaysia (RM), which is also the Company's functional currency.

(ii) Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items denominated in foreign currencies measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are initially recognised and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2. Summary of significant accounting policies (cont'd.)

2.6 Foreign currency (cont'd.)

(iii) Foreign operations

The assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the balance sheet date and income and expenses are translated at exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to foreign currency translation reserve. On disposal of a foreign operation, the cumulative amount recognised and accumulated in equity under foreign currency translation reserve relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the reporting date.

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, plant and equipment and furniture and fixtures are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in profit or loss as incurred. Buildings are measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value of the freehold land and buildings at the reporting date.

Any revaluation surplus is recognised and accumulated in equity under the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset carried in the asset revaluation reserve.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The revaluation surplus included in the asset revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

Depreciation is computed on a straight-line basis over the estimated annual rates as follows:

-	Buildings	5% - 10.44%
-	Leasehold improvements	20%
-	Plant, machinery and test equipment	20% - 66.67%
-	Motor vehicles	20%
-	Office equipment, furniture and fittings and computers	10% - 33.33%

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

2. Summary of significant accounting policies (cont'd.)

2.7 Property, plant and equipment (cont'd.)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the profit or loss in the year the asset is derecognised.

2.8 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

2.9 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

2. Summary of significant accounting policies (cont'd.)

2.10 Financial instruments

Financial instruments are recognised in the balance sheet when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends and gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are recognised directly in equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(i) Short term investments

Quoted investments are stated at the lower of cost and market value, determined on an aggregate basis. Cost is determined on the weighted average basis while market value is determined based on quoted market values. On disposal of quoted investments, the difference between net disposal proceeds and the carrying amount is recognised in profit or loss.

(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) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, and demand deposits, which are readily convertible to cash with insignificant risk of changes in value.

(iv) Payables

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

(v) Borrowings

Loans and borrowings are recognised initially at fair value, net of transaction costs.

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

(vi) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group and the Company after deducting all of its liabilities. Ordinary shares are equity instruments.

Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2. Summary of significant accounting policies (cont'd.)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

– Direct materials: purchase costs on a weighted average basis.
– Finished goods: cost of direct materials and labour, and attributable production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.12 Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.13 Borrowing costs

All borrowing costs are recognised in profit or loss in the period they are incurred. Borrowing costs consist of interest and other costs that the Group and the Company incurred in connection with the borrowing of funds.

2.14 Employee benefits

(i) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Malaysian companies in the Group make contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(ii) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to balance sheet date.

2. Summary of significant accounting policies (cont'd.)

2.14 Employee benefits (cont'd.)

(iii) Employee share option plans

The Company's Employees Share Options Scheme allows the Group's employees to acquire shares of the Company.

The total fair value of the share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity over the vesting period and taking into account the probability that the options will vest. The fair value of share options is measured at grant date, taking into account, if any, the market vesting conditions upon which the options were granted but excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date.

At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the profit or loss, and a corresponding adjustment to equity over the remaining vesting period. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

The proceeds received net of any directly attributable transaction costs are credited to equity when the options are exercised.

2.15 Leases

(i) As lessee - Finance lease

Finance leases, which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Leased assets are depreciated over the estimated useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life and the lease term.

(ii) As lessee - Operating lease

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

In the case of a lease of land and buildings, the minimum lease payments or the up-front payments made are allocated, wherever necessary, between the land and the buildings elements in proportion to the relative fair values for leasehold interests in the land element and buildings element of the lease at the inception of the lease. The up-front payments relating to the land element represents prepaid lease payments and are amortised on a straight line basis over the lease term.

2. Summary of significant accounting policies (cont'd.)

2.16 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable.

(i) Revenue from burn-in, testing services and assembly of electronic components

Revenue arising from burn-in, testing services and assembly of electronic components is recognised upon passage of title to the customer which generally coincides with the delivery, or the rendering of service to the customer.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(iv) Rental income

Rental income is accounted for on a straight-line basis over the lease terms.

2.17 Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss to equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Summary of significant accounting policies (cont'd.)

2.17 Income taxes (cont'd.)

(ii) Deferred tax (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.18 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 28, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.19 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group.

3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of plant, machinery and test equipment

The cost of plant, machinery and test equipment is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant, machinery and test equipment to be within 1.5 to 5 years. These are common life expectancies applied in the semiconductor industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised.

(ii) Deferred tax assets

Deferred tax assets are recognised for unutilised reinvestment allowance to the extent that it is probable that taxable profit will be available against which the unutilised reinvestment allowance can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax asset has not been recognised in respect of unutilised reinvestment allowance as it is not probable that sufficient taxable income will be available against which these benefits can be realised. The details are as disclosed in Note 23.

4. Revenue

Revenue of the Group and of the Company consists of the following:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Burn-in and testing services	139,306	115,211	50,999	41,862
Sales and assembly of electronic equipment	85,836	54,104	-	-
	225,142	169,315	50,999	41,862

5. Employee benefits expense

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Salaries and wages	34,697	28,483	10,439	9,426
Pension costs - defined contribution plans	1,932	1,795	654	565
Social security costs	909	709	85	71
Short term accumulating compensated absences	48	(217)	27	(150)
Others	11,314	3,690	9,363	3,206
	48,900	34,460	20,568	13,118

Employee benefits expense excludes Directors' remunerations.

6. Profit from operating activities

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Profit from operating activities is arrived at:				
After charging:				
Auditors' remuneration	206	213	82	90
Directors' emoluments	1,430	1,093	1,020	983
Rent of equipment	20	99	-	-
Rent of factory	1,412	1,440	1,070	1,081
Realised loss on foreign exchange	1,143	-	189	-
Unrealised loss on foreign exchange	1,573	-	2,147	-
Loss on disposal of property, plant and equipment	-	-	2	-
Impairment of property, plant and equipment	177	177	177	177
and crediting:				
Realised foreign exchange gain	-	8	-	30
Unrealised foreign exchange gain	-	2,007	-	2,083
Gain on disposal of property, plant and equipment	273	16	-	-
Gain on disposal of quoted shares	2,494	660	2,494	660
Gross dividends from other investments	310	219	310	219
Rental income from a subsidiary company	-	-	736	736

6. Profit from operating activities (cont'd.)

Information on Directors' emoluments is as follows:

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Directors' emoluments				
Directors of the company				
Executive				
- fees	459	161	59	61
- salaries and other emoluments	823	784	823	784
	1,282	945	882	845
Non-Executive				
- fees	135	135	125	125
- allowances	13	13	13	13
	148	148	138	138
Total Directors' emoluments	1,430	1,093	1,020	983

The number of Directors of the Company whose total emoluments during the year fall within the following bands is analysed below:

	Number of Directors 2010	Number of Directors 2009
Executive Directors:		
RM400,001 to RM450,000	1	1
RM500,001 to RM550,000	-	1
RM800,001 to RM850,000	1	-
Non-executive Directors:		
Less than RM50,000	5	5

Executive Directors of the Company have been granted the following number of options under the Employees Share Option Scheme ("ESOS"):

	Group/Company 2010 '000	Group/Company 2009 '000
At 1 August	434	434
Granted	-	-
At 31 July	434	434

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

6. Profit from operating activities (cont'd.)

Compensation of key management personnel

The Directors of the Company are also the key management personnel of the Company, whose remuneration are as follows:

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Emoluments	1,282	945	882	845

7. Interest income

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Interest income from:				
- deposits with licensed banks	1,251	1,490	339	451
- loan to a subsidiary company	-	-	556	833
	1,251	1,490	895	1,284

8. Finance costs

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Interest expense on:				
- term loans	1,123	1,971	124	210
- hire purchase contracts	263	281	132	122
- loan from a corporate shareholder	116	118	-	-
- advance from a subsidiary company	-	-	19	156
- revolving credits	11	12	-	-
	1,513	2,382	275	488

9. Income tax expense

Major components of income tax expense:

The major components of income tax expense for the years ended 31 July 2010 and 2009 are:

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Current income tax				
- Malaysian income tax	1,730	1,078	105	334
- Foreign tax	1,524	-	-	-
- Under/(over) provision in prior years	109	(2,762)	20	(2,723)
	3,363	(1,684)	125	(2,389)
Deferred tax (Note 23)				
- relating to origination and reversal of temporary differences	2,378	1,046	70	651
- Over provision in prior years	(358)	(197)	(455)	(115)
	2,020	849	(385)	536
	5,383	(835)	(260)	(1,853)

9. Income tax expense (cont'd.)

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2009: 25%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the prevailing rate of the respective jurisdictions.

Reconciliation between tax expense and accounting profit:

The reconciliation between tax expense and product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 July 2010 and 2009 are as follows:

	Group	
	2010 RM'000	2009 RM'000
Profit before tax	19,403	10,448
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	4,851	2,612
Income not subject to tax	(672)	(344)
Expenses not deductible for tax purpose	984	979
Utilisation of reinvestment allowance	(225)	(195)
Deferred tax asset recognised on unutilised reinvestment allowance	(94)	(928)
Deferred tax asset derecognised on unutilised reinvestment allowance	788	-
Under/(over) provision of income tax expense in prior years	109	(2,762)
Over provision of deferred tax in prior years	(358)	(197)
Income tax for the year	5,383	(835)

The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

	Company	
	2010 RM'000	2009 RM'000
Profit before tax	2,963	6,085
Taxation at Malaysian statutory tax rate of 25% (2009: 25%)	741	1,522
Income not subject to tax	(753)	(344)
Expenses not deductible for tax purpose	281	247
Utilisation of reinvestment allowance	-	(94)
Deferred tax asset recognised on unutilised reinvestment allowance	(94)	(346)
Under/(over) provision of income tax expense in prior years	20	(2,723)
Overprovision of deferred tax in prior years	(455)	(115)
Income tax for the year	(260)	(1,853)

10. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year, attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share amounts are calculated by dividing profit for the year, attributable to equity holder of the Company by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 31 July:

	Group	
	2010 RM'000	2009 RM'000
Profit attributable to ordinary equity holders of the Company	11,746	9,757
	Number ('000)	Number ('000)
Weighted average number of ordinary shares in issue	43,015	43,015
Adjustment for conversion of options under ESOS to ordinary shares	7	3
	43,022	43,018
Basic earnings per share	27.3 sen	22.7 sen
Diluted earnings per share	27.3 sen	22.7 sen

There has been no other transaction involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

11. Dividend

	2010 RM'000	2009 RM'000
Recognised during the year:		
First and final tax exempt dividend for 2009: on 43,014,500 ordinary shares (3 sen per ordinary share)	1,290	-
First and final tax exempt dividend for 2008: on 43,014,500 ordinary shares (3 sen per ordinary share)	-	1,290
Proposed for approval at AGM (not recognised as at 31 July):		
First and final tax exempt dividend for 2010: on 43,014,500 ordinary shares (3 sen per ordinary share)	1,290	-
First and final tax exempt dividend for 2009: on 43,014,500 ordinary shares (3 sen per ordinary share)	-	1,290

12. Property, plant and equipment

Group At 31 July 2010	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 2009	22,035	8,176	382,626	1,400	7,662	2,032	423,931
Additions	-	580	30,977	59	476	40,302	72,394
Disposals	-	-	(3,511)	(41)	(160)	-	(3,712)
Reclassification	-	166	21,752	-	431	(22,349)	-
Exchange differences	-	(404)	(2,599)	(6)	(53)	(2)	(3,064)
At 31 July 2010	22,035	8,518	429,245	1,412	8,356	19,983	489,549
Accumulated depreciation and impairment losses							
At 1 August 2009	639	3,420	288,634	1,062	6,321	531	300,607
Depreciation charge	2,228	1,228	38,225	129	662	-	42,472
Impairment losses	-	-	-	-	-	177	177
Disposals	-	-	(3,511)	(41)	(157)	-	(3,709)
Exchange differences	-	(77)	(605)	(1)	(22)	-	(705)
At 31 July 2010	2,867	4,571	322,743	1,149	6,804	708	338,842
Analysed as follow:							
Accumulated depreciation	2,867	4,512	321,927	1,149	6,788	-	337,243
Accumulated impairment losses	-	59	816	-	16	708	1,599
	2,867	4,571	322,743	1,149	6,804	708	338,842
Net carrying amount							
At cost	-	3,947	106,502	263	1,552	19,275	131,539
At valuation	19,168	-	-	-	-	-	19,168
At 31 July 2010	19,168	3,947	106,502	263	1,552	19,275	150,707

12. Property, plant and equipment (cont'd.)

Group (cont'd.) At 31 July 2009	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 2008	22,350	5,402	342,733	1,326	7,426	27,211	406,448
Additions	-	34	14,065	67	326	2,207	16,699
Disposals	(110)	-	(1,850)	-	(153)	-	(2,113)
Reclassification	-	2,523	25,697	-	12	(28,232)	-
Revaluation adjustments	(205)	-	-	-	-	-	(205)
Exchange differences	-	217	1,981	7	51	846	3,102
At 31 July 2009	22,035	8,176	382,626	1,400	7,662	2,032	423,931
Accumulated depreciation and impairment losses							
At 1 August 2008	6,075	2,417	247,018	850	5,728	354	262,442
Depreciation charge	1,725	973	43,298	211	737	-	46,944
Impairment losses	-	-	-	-	-	177	177
Disposals	(35)	-	(1,834)	-	(153)	-	(2,022)
Elimination of accumulated depreciation on revaluation	(7,126)	-	-	-	-	-	(7,126)
Exchange differences	-	30	152	1	9	-	192
At 31 July 2009	639	3,420	288,634	1,062	6,321	531	300,607
Analysed as follow:							
Accumulated depreciation	639	3,361	287,818	1,062	6,305	177	299,362
Accumulated impairment losses	-	59	816	-	16	354	1,245
	639	3,420	288,634	1,062	6,321	531	300,607
Net carrying amount							
At cost	-	4,756	93,992	338	1,341	1,501	101,928
At valuation	21,396	-	-	-	-	-	21,396
At 31 July 2009	21,396	4,756	93,992	338	1,341	1,501	123,324

12. Property, plant and equipment (cont'd.)

Company At 31 July 2010	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 2009	10,545	1,577	100,614	652	3,881	1,702	118,971
Additions	-	518	7,446	-	293	17,742	25,999
Disposal	-	-	(1,411)	(41)	(75)	-	(1,527)
Reclassification	-	38	8,367	-	42	(8,447)	-
At 31 July 2010	10,545	2,133	115,016	611	4,141	10,997	143,443
Accumulated depreciation and impairment losses							
At 1 August 2009	359	1,264	81,593	482	3,298	531	87,527
Depreciation charge for the year	1,075	159	7,735	74	261	-	9,304
Impairment losses	-	-	-	-	-	177	177
Disposal	-	-	(1,412)	(41)	(72)	-	(1,525)
At 31 July 2010	1,434	1,423	87,916	515	3,487	708	95,483
Analysed as follows:							
Accumulated depreciation	1,434	1,364	87,100	515	3,471	-	93,884
Accumulated impairment losses	-	59	816	-	16	708	1,599
	1,434	1,423	87,916	515	3,487	708	95,483
Net carrying amount							
At cost	-	710	27,100	96	654	10,289	38,849
At valuation	9,111	-	-	-	-	-	9,111
At 31 July 2010	9,111	710	27,100	96	654	10,289	47,960

12. Property, plant and equipment (cont'd.)

Company (cont'd.) At 31 July 2009	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 2008	11,030	1,576	97,901	652	3,808	708	115,675
Additions	-	1	1,889	-	193	1,822	3,905
Revaluation adjustments	(485)	-	-	-	-	-	(485)
Disposal	-	-	-	-	(124)	-	(124)
Reclassification	-	-	824	-	4	(828)	-
At 31 July 2009	10,545	1,577	100,614	652	3,881	1,702	118,971
Accumulated depreciation and impairment losses							
At 1 August 2008	3,047	1,125	73,384	387	3,157	354	81,454
Depreciation charge for the year	875	139	8,209	95	265	-	9,583
Elimination of accumulated depreciation on revaluation	(3,563)	-	-	-	-	-	(3,563)
Impairment losses	-	-	-	-	-	177	177
Disposal	-	-	-	-	(124)	-	(124)
At 31 July 2009	359	1,264	81,593	482	3,298	531	87,527
Analysed as follow:							
Accumulated depreciation	359	1,205	80,777	482	3,282	-	86,105
Accumulated impairment losses	-	59	816	-	16	531	1,422
	359	1,264	81,593	482	3,298	531	87,527
Net carrying amount							
At cost	-	313	19,021	170	583	1,171	21,258
At valuation	10,186	-	-	-	-	-	10,186
At 31 July 2009	10,186	313	19,021	170	583	1,171	31,444

12. Property, plant and equipment (cont'd.)

(i) Revaluation of buildings

Except for the buildings of the Group and of the Company, which are carried at valuation, all other property, plant and equipment, are measured at cost. The Group's and the Company's buildings were revalued by the Directors based on a valuation conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers, in April 2009. The valuers used the comparison method of valuation to determine the market value of the leasehold land and buildings. The surplus arising from this revaluation has been credited to revaluation reserve.

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Buildings	5,191	6,093	2,476	2,851

(ii) Assets held under finance leases

The carrying amounts of property, plant and equipment held under finance leases at balance sheet date are as follows:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Plant, machinery and test equipment	5,149	5,606	2,308	2,310
Motor vehicles	58	141	-	141
	5,207	5,747	2,308	2,451

The aggregate net book values of plant, machinery and test equipment of the Group and of the Company of RM32,888,000 (2009: RM34,611,000) and RM17,140,000 (2009:RM6,011,000) respectively, are pledged as securities for term loans as disclosed in Note 21.

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash payments	56,241	16,401	21,169	3,607
Finance leases	2,987	-	764	-
Financed by creditors	13,166	298	4,066	298
	72,394	16,699	25,999	3,905

12. Property, plant and equipment (cont'd.)

(iii) Included in the property, plant and equipment of the Group and the Company are the following costs of fully depreciated assets which are still in use:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
At cost:				
Plant, machinery and test equipment	258,285	214,432	69,855	66,315
Leasehold improvements	1,844	1,543	909	884
Office equipment, furniture and fittings and computers	5,174	4,610	2,693	2,633
Motor vehicles	713	754	242	283
	266,016	221,339	73,699	70,115

13. Prepaid land lease payments

	Group RM'000	Company RM'000
Long term leasehold land		
At 1 August 2008	6,024	3,580
Amortisation	(142)	(78)
At 31 July 2009	5,882	3,502
Amortisation	(145)	(79)
At 31 July 2010	5,737	3,423

14. Subsidiary companies

	Company	
	2010 RM'000	2009 RM'000
Unquoted shares, at costs	26,054	21,573

Details of the subsidiary companies are as follows:

Name of Company	Country of incorporation	Principal activities	Equity interest 2010 %	Equity interest 2009 %
KESP Sdn Bhd *	Malaysia	Provision of semiconductor burn-in services and assembly of electronic components	100	100
KESM Test (M) Sdn Bhd *	Malaysia	Testing of semiconductor integrated circuits	65.38	65.38
KESM Industries (Tianjin) Co., Ltd. *	China	Provision of semiconductor burn-in and testing of semiconductor integrated circuits	100	100

* Audited by Ernst & Young, Malaysia.

15. Inventories

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
At cost				
Raw materials	11,487	8,554	-	-
Consumables	1,891	2,199	201	177
Work-in-progress	683	469	-	-
Finished goods	2,024	1,937	-	-
Total inventories	16,085	13,159	201	177

16. Trade and other receivables

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Trade receivables	56,309	40,116	13,481	8,737
Due from related parties (trade)	20	-	-	-
Deposits	695	670	507	524
Prepayments	3,082	1,957	659	294
Sundry receivables	2,727	1,400	733	923
Due from subsidiary companies	-	-	29,445	28,586
Due from related parties (non-trade)	2	213	-	-
	62,835	44,356	44,825	39,064

Trade receivables are non-interest bearing and are generally on 30 to 95 days (2009: 30 to 95 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Amount due from subsidiary companies are unsecured, non-interest bearing and have no fixed terms of repayment except for loans and advances which bear interests at commercial rates during the financial year.

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

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

17. Investment securities

	Group/Company 2010 RM'000	Group/Company 2009 RM'000
Shares quoted in Malaysia		
- At cost	7,204	8,213
Market value	10,877	11,747

18. Cash and cash equivalents

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Deposits with licensed banks	49,837	75,105	12,509	24,287
Cash and bank balances	18,748	5,587	4,141	1,549
	68,585	80,692	16,650	25,836

Fixed deposits of the Group amounting to RM32,500 (2009: RM32,500) were pledged to a bank as security for credit facilities granted to the Group.

The average of maturities of deposits at the balance sheet date and the weighted average of interest rates of deposits at the balance sheet date of the Group and Company were as follows:

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Maturities of deposits	27 days	30 days	30 days	30 days
Interest rates	2.1%	2.3%	1.8% - 2.3%	1.3% - 1.8%

19. Share capital

	Group/Company 2010 Number ('000)	Group/Company 2009 Number ('000)	Group/Company 2010 RM'000	Group/Company 2009 RM'000
Authorised share capital:				
At 1 August/31 July	50,000	50,000	50,000	50,000
Issued and fully paid:				
Ordinary shares of RM1 each				
At 1 August/31 July	43,015	43,015	43,015	43,015

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

20. Reserves

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Distributable:				
Retained earnings	153,241	142,785	69,873	67,940
Non-distributable:				
Share premium	663	663	663	663
Asset revaluation reserve	12,915	12,915	4,549	4,549
Merger relief reserve	-	-	1,215	1,215
Foreign currency translation reserve	905	2,157	-	-
	167,724	158,520	76,300	74,367

(i) Retained earnings

Prior to the year of assessment 2008, Malaysian companies adopted the full imputation system. In accordance with the Finance Act 2007 which was gazetted on 28 December 2007, companies shall not be entitled to deduct tax on dividends paid, credited or distributed to its shareholders, and such dividends will be exempted from tax in the hands of the shareholders ("single tier system"). However, there is a transitional period of six years, expiring on 31 December 2013, to allow companies to pay franked dividends to their shareholders under limited circumstances. Companies also have an irrevocable option to disregard the 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the 108 balance to be locked-in as at 31 December 2007 in accordance with Section 39 of the Finance Act 2007.

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 July 2010 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 July 2010, the Company has sufficient credit in the Section 108 balance to pay franked dividends amounting to RM25,100,000 (2009: RM25,100,000) out of its retained profits. As at balance sheet date, the Company has sufficient tax exempt account balance to distribute tax exempt dividends of approximately RM5,292,000 (2009: RM5,821,000). The Company may distribute dividends from the balance of retained earnings under the single tier system.

(ii) Asset revaluation reserve

The asset revaluation reserve represents the surplus on revaluation of buildings, net of deferred tax.

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
At 1 August	12,915	7,658	4,549	2,241
Revaluation increase, net of deferred tax	-	5,257	-	2,308
At 31 July	12,915	12,915	4,549	4,549

20. Reserves (cont'd.)

(iii) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operation whose functional currency is different from that of the Group's presentation currency. It is also used to record the exchange differences arising from monetary items which form part of the Group's net investment in foreign operation, where the monetary item is denominated in either the functional currency of the reporting entity or the foreign operation.

21. Loans and borrowings

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Current:				
Secured:				
Obligation under finance leases (Note 22)	2,029	2,193	1,149	1,121
Term loans	17,231	18,186	6,817	2,940
	19,260	20,379	7,966	4,061
Non-current:				
Secured:				
Obligation under finance leases (Note 22)	1,372	894	361	894
Term loans	6,838	15,947	3,502	2,215
Unsecured:				
Other loan	1,374	1,374	-	-
	9,584	18,215	3,863	3,109
Total loans and borrowings				
Obligation under finance leases (Note 22)	3,401	3,087	1,510	2,015
Term loans	24,069	34,133	10,319	5,155
Other loan	1,374	1,374	-	-
	28,844	38,594	11,829	7,170

Term loans are secured by way of:

(i) first party pledge over the Group's and Company's plant and equipment with aggregate net book values of RM32,888,000 (2009: RM34,611,000) and RM17,140,420 (2009: RM6,011,000), respectively, as referred to in Note 12(ii);

(ii) negative pledge; and

(iii) corporate guarantee provided by the Company.

The secured term loans bear interests at commercial rates during the financial year.

Other loan represents an unsecured loan obtained from a substantial corporate shareholder, Sunright Limited. This loan bears interest at commercial rates during the financial year and is not expected to be repaid in the next 12 months.

22. Finance leases

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
Future minimum hire purchase payments:				
Not later than 1 year	2,220	2,424	1,268	1,238
After one year and not later than five years	1,496	988	397	988
Total future minimum hire purchase payments	3,716	3,412	1,665	2,226
Less: Future finance charges	(315)	(325)	(155)	(211)
Present value of hire purchase liabilities	3,401	3,087	1,510	2,015
Analysis of present value of hire purchase liabilities:				
Not later than 1 year	2,029	2,193	1,149	1,121
After one year and not later than 5 years	1,372	894	361	894
	3,401	3,087	1,510	2,015

The finance leases bear interest at commercial rates during the financial year.

23. Deferred tax (assets)/liabilities

	Group 2010 RM'000	Group 2009 RM'000	Company 2010 RM'000	Company 2009 RM'000
At 1 August	(4,823)	(7,334)	385	(921)
Recognised in income statement (Note 9)	2,020	849	(385)	536
Recognised in equity	-	1,662	-	770
At 31 July	(2,803)	(4,823)	-	385
Presented after appropriate offsetting as follows:				
Deferred tax liabilities	3,583	4,581	1,704	2,516
Deferred tax assets	(6,386)	(9,404)	(1,704)	(2,131)
	(2,803)	(4,823)	-	385

23. Deferred tax (assets)/liabilities (cont'd.)

The components and movements of deferred tax liabilities and assets during the financial year prior to offsetting are as follows:

Deferred tax liabilities of the Group

	Revaluation surplus RM'000
At 1 August 2008	2,701
Recognised in income statement	218
Recognised in equity	1,662
At 31 July 2009	4,581
Recognised in income statement	(998)
At 31 July 2010	3,583

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Unutilised reinvesment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2008	(4,593)	(4,545)	(897)	(10,035)
Recognised in income statement	(1)	192	440	631
At 31 July 2009	(4,594)	(4,353)	(457)	(9,404)
Recognised in income statement	2,264	1,936	(1,182)	3,018
At 31 July 2010	(2,330)	(2,417)	(1,639)	(6,386)

Deferred tax liabilities of the Company

	Revaluation surplus RM'000
At 1 August 2008	1,437
Recognised in income statement	309
Recognised in equity	770
At 31 July 2009	2,516
Recognised in income statement	(812)
At 31 July 2010	1,704

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Unutilised reinvesment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2008	(1,325)	(556)	(477)	(2,358)
Recognised in income statement	(218)	192	253	227
At 31 July 2009	(1,543)	(364)	(224)	(2,131)
Recognised in income statement	1,361	(137)	(797)	427
At 31 July 2010	(182)	(501)	(1,021)	(1,704)

23. Deferred tax (assets)/liabilities (cont'd.)

Deferred tax asset has not been recognised in respect of the following item:

	Group	
	2010	2009
	RM'000	RM'000
Unutilised reinvestment allowance	101,251	78,593

The availability of the unutilised reinvestment allowance for offsetting against future taxable profits of the subsidiary is subject to no substantial changes in shareholdings of the subsidiary under Sections 44(5A) & (5B) of the Income Tax Act, 1967.

24. Trade and other payables

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
Trade payables	9,077	5,256	37	27
Due to related parties (trade)	7,280	70	27	33
Accrued operating expenses	5,543	3,221	3,122	1,416
Accrual for Directors' fees	607	310	197	200
Sundry payables	19,442	15,218	2,968	3,255
Balance due for acquisitions of property, plant and equipment	10,886	298	4,066	298
Due to a subsidiary	-	-	4,958	-
Due to related parties (non-trade)	3,144	977	335	305
	55,979	25,350	15,710	5,534

The normal trade credit terms granted to the Group range from 30 days to 60 days (2009: 30 days to 60 days).

Amount due to related parties, as defined in Note 16, are unsecured, non-interest bearing and have no fixed terms of repayment.

25. Significant related party disclosures

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiary companies				
Management fees charged by Sunright Limited	3,853	3,466	1,379	1,431
Interest on loan from:				
- Sunright Limited	116	118	-	-
Sales to:				
- KES Systems & Service (1993) Pte Ltd	441	-	-	-
- KES Systems, Inc.	16	-	-	-
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	10,446	226	2,395	226
- Kestronics (M) Sdn Bhd	2,006	256	91	140
- KES Systems, Inc.	11,011	3	11,011	2
- KESU Systems & Service, Inc.	44	-	44	-
- KEST Systems & Service Ltd	410	201	-	-

	Company	
	2010 RM'000	2009 RM'000
Transactions with subsidiary companies		
Rental income from a subsidiary company for rent of a factory	736	736
Finance costs on loan and advances from a subsidiary company	(19)	(156)
Interest income on loan and advance to a subsidiary company	556	833

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.

26. Contingent liabilities

	Company 2010 RM'000	Company 2009 RM'000
Unsecured:		
Guarantees granted to licensed banks and financial institutions in respect of credit facilities extended to subsidiary companies	16,373	15,973

27. Capital commitments

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Property, plant and equipment				
Authorised and contracted for	47,555	21	4,349	18
Authorised but not contracted for	4,678	-	-	-

28. Segment information

For management purposes, the Group is organised into business units based on their products and services, and has two reportable operating segments as follows:

(i) Burn-in, testing and assembly segment is in the provision of semiconductor burn-in, testing of semiconductor integrated circuits and assembly of electronic components. This reportable segment has been formed by aggregating the burn-in and test related activities and assembly activities, which are regarded by management to exhibit similar characteristics.

(ii) Investment holding segment includes Group-level corporate services, treasury functions and investment in marketable securities, and consolidation adjustments which are not directly attributable to the above business segment.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

28. Segment information (cont'd)

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Burn-in, testing and assembly RM'000	Investment holding RM'000	Consolidated RM'000
At 31 July 2010			
Revenue/operating income			
Sales to external customers	225,142	-	225,142
Dividend income	-	310	310
Results			
Segment profit	16,861	2,804	19,665
Interest income			1,251
Finance costs			(1,513)
Profit before tax			19,403
Income tax expense			(5,383)
Profit for the year			14,020
Other segment information			
Capital expenditure	72,394	-	72,394

	Burn-in, testing and assembly RM'000	Investment holding RM'000	Consolidated RM'000
At 31 July 2009			
Revenue/operating income			
Sales to external customers	169,315	-	169,315
Dividend income	-	219	219
Results			
Segment results	10,461	879	11,340
Interest income			1,490
Finance costs			(2,382)
Profit before tax			10,448
Income tax			835
Profit for the year			11,283
Other segment information			
Capital expenditure	16,699	-	16,699

28. Segment information (cont'd)

Geographical segments

Revenue and non-current assets information based on the geographical location of customers and assets respectively are as follows:

	Revenue		Non-current assets	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Malaysia	203,261	159,345	114,014	99,474
People's Republic of China	21,881	9,970	42,430	29,732
	225,142	169,315	156,444	129,206

Non-current assets information above consist of property, plant and equipment and prepaid land lease payments.

Information about major customers

The Group's customer base includes 2 (2009: 1) customers from burn-in, testing and assembly segment, with whom transactions have exceeded 10% of the Group's revenue. In the financial year 2010, revenues generated from these customers amounted to approximately RM 156,227,000 (2009: RM102,978,000).

29. Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include interest rate risk, foreign currency risk, liquidity risk, credit risk and market price risk.

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 these risks. The Group's risk management approach seeks to minimise the potential material adverse impact of those exposures.

The following provides details regarding the Group's and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's interest-bearing financial assets are mainly short term in nature, where the surplus funds are placed with reputable licensed banks.

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

29. Financial risk management objectives and policies (cont'd.)

(i) Interest rate risk (cont'd.)

The following tables set out the carrying amounts and the remaining maturities of the Group's and the Company's financial instruments that are exposed to interest rate risk.

	Note	Within 1 year RM'000	1-2 years RM'000	2-3 years RM'000	Total * RM'000
Group					
At 31 July 2010					
Fixed and floating rate					
Loans and borrowings	21	19,260	7,903	307	27,470
At 31 July 2009					
Fixed and floating rate					
Loans and borrowings	21	20,379	13,789	3,052	37,220
Company					
At 31 July 2010					
Fixed and floating rate					
Loans and borrowings	21	7,966	3,757	106	11,829
At 31 July 2009					
Fixed and floating rate					
Loans and borrowings	21	4,061	3,109	-	7,170

Information relating to the Group's interest rate exposure is also disclosed in Note 21 on loans and borrowings.

* Excludes other loan of RM1,374,000 (2009: RM1,374,000). Information relating to other loan is disclosed in Note 21.

29. Financial risk management objectives and policies (cont'd.)

(ii) Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group has transactional currency exposures arising from sales and purchases that are denominated in currency other than the respective functional currencies of Group entities, primarily Singapore Dollar, United States Dollar and Euro Dollar.

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

	2010 RM'000	2009 RM'000
Singapore Dollars	(8,306)	(429)
United States Dollars	10,935	10,493
Euro	(5)	-
	2,624	10,064

(iii) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. 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.

(iv) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's and the Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including investment securities and cash and bank balances), the Group and the Company minimise credit risk by dealing exclusively with high credit rating counterparties.

(v) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates).

The Group is exposed to equity price risk arising from its investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Bursa Malaysia Securities Berhad.

30. Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair values of the following classes of financial instruments:

(i) Loans and borrowings

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

(ii) Investment securities

The fair value of quoted investments is determined by reference to the market price at the balance sheet date and is disclosed in Note 17.

(iii) Due from/(to) subsidiary companies/related parties

It is not practical to estimate the fair values of amounts due from/(to) subsidiary companies/related parties due principally to a lack of fixed repayment terms entered into by the parties involved and without incurring excessive costs. However, the Group does not anticipate the carrying amounts recorded at the balance sheet date to be significantly different from the values that would eventually be received or settled.

(iv) Other financial assets and liabilities

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.

30. Fair value of financial instruments (cont'd.)

(v) Recognised financial instruments

The aggregate fair values of financial assets and liabilities which are not carried at fair values on the balance sheet of the Group and of the Company are represented in the following table:

		Group		Company	
	Note	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial assets					
At 31 July 2010:					
Investment securities	17	7,204	10,877	7,204	10,877
Loan to subsidiaries	16	-	-	15,275	*
At 31 July 2009:					
Investment securities	17	8,213	11,747	8,213	11,747
Loan to subsidiaries	16	-	-	16,605	*
Financial liabilities					
At 31 July 2010:					
Secured term loans	21	24,069	24,069	10,319	10,724
Finance leases	22	3,401	3,498	1,510	1,484
At 31 July 2009:					
Secured term loans	21	34,133	31,334	5,155	4,852
Finance leases	22	3,087	3,224	2,015	2,099

* It is not practical to estimate the fair value of loans to subsidiaries principally due to lack of fixed term of repayment entered into by parties involved and without incurring excessive costs.

31. Comparative figures

The following comparative amounts for Note 23 have been reclassified to conform with current year's presentation:

Group Balance sheet	As Restated RM'000	Adjustments RM'000	Previously Stated RM'000
Deferred tax liabilities	4,581	(230)	4,351
Deferred tax assets	(9,404)	230	(9,174)

32. Event after balance sheet date

On 6 September 2010, the Company made an additional capital injection of RM11.3 million into its subsidiary company in China.

SHAREHOLDERS' INFORMATION

as at 30 September 2010

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	:	RM50,000,000.00
Issued and paid-up capital	:	RM43,014,500.00
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	%
5	Less than 100	200	0.00
200	100 to 1,000 shares	172,100	0.40
885	1,001 to 10,000 shares	3,649,500	8.49
206	10,001 to 100,000 shares	6,147,100	14.29
23	100,001 to less than 5% of issued shares	12,220,600	28.41
1	5% and above of issued shares	20,825,000	48.41
1,320	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

		Number of Shares Held			
	Name of Shareholders	Direct	%	Deemed Interest	%
1.	Sunright Limited	20,825,000	48.41	-	-
2.	Samuel Lim Syn Soo	-	-	20,825,000*	48.41

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

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

<u>SHARES IN THE COMPANY</u>

		Number of Shares Held			
	Name of Director	Direct	%	Deemed Interest	%
1.	Samuel Lim Syn Soo	-	-	20,825,000*	48.41
2.	Kenneth Tan Teoh Khoon	-	-	-	-
3.	Lim Mee Ing	-	-	-	-
4.	Dato' Dr. Norraesah Haji Mohamad	7,500	0.02	-	-
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.*

<u>SHARES IN RELATED CORPORATION</u>

The interest of Directors in related companies remains the same as disclosed in the Directors' Report for the year ended 31 July 2010.

SHAREHOLDERS' INFORMATION

as at 30 September 2010

EMPLOYEES 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
		RM1.927	12,800
			216,800
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
		RM1.927	12,800
			216,800

* *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 2010

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Wong Tee Kim @ Wong Tee Fatt	2,150,000	4.99
3.	Tan Kong Hong Alex	2,057,500	4.78
4.	DB (Malaysia) Nominee (Asing) Sdn Bhd Exempt An for British And Malayan Trustees Limited (Yeoman 3-Rights)	1,350,000	3.14
5.	Citigroup Nominees (Asing) Sdn Bhd Citigroup GM Inc for SC Fundamental Value BVI Ltd	803,922	1.87
6.	Citigroup Nominees (Asing) Sdn Bhd Citigroup GM Inc for SC Fundamental Value Fund LP	706,278	1.64
7.	Citigroup Nominees (Asing) Sdn Bhd Citigroup GM Inc for SC Asian Opportunity Fund, L.P.	673,000	1.56
8.	Lembaga Tabung Haji	662,300	1.54
9.	Mayban Nominees (Tempatan) Sdn Bhd Heng Peng Heng	459,000	1.07
10.	Tan Kim Hin	400,000	0.93
11.	Follow Me Industries Sdn Bhd	374,300	0.87
12.	PM Nominees (Tempatan) Sdn Bhd PCB Asset Management Sdn Bhd for MUI Continental Insurance Berhad	329,700	0.77
13.	Lim Hooi Teik	308,000	0.72
14.	Chau Tai Chuon	260,400	0.61
15.	Soon Hoe Chuan	250,200	0.58
16.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Lim Soon	240,000	0.56
17.	Tan Jin Tuan	189,000	0.44
18.	CIMSEC Nominees (Asing) Sdn Bhd Exempt An for CIMB Securities (Singapore) Pte Ltd	182,500	0.42
19.	Lim Khuan Eng	154,400	0.36
20.	HSBC Nominees (Asing) Sdn Bhd Exempt An for BNP Paribas Securities Services	150,000	0.35
21.	JF Apex Nominees (Tempatan) Sdn Bhd Pledged securities account for Teo Siew Lai	135,100	0.31
22.	Wong Yoke Fong @ Wong Nyok Fing	135,000	0.31
23.	HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd for Lim Mee Hwa	135,000	0.31
24.	HLG Nominee (Tempatan) Sdn Bhd Pledged Securities Account for Leong Wai Hong	115,000	0.27
25.	RHB Capital Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Fong Siling	100,000	0.23
26.	Yong Loy Huat	100,000	0.23
27.	Ng Teng Song	100,000	0.23
28.	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Kian Yap	98,400	0.23
29.	Fong Soong Hee	97,500	0.23
30.	Mayban Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Heng Peng Heng	95,000	0.22
	Total	33,636,500	78.20

GROUP PROPERTIES
as at 31 July 2010

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	28 Apr 2009	Leasehold for 99 years expiring on 30 Oct 2100	5,064 / Phase I – 2,315 Phase II – 3,169 Phase III – 3,345	Phase I – 14 Phase II – <12 Phase III – <13	3,150 / Phase I – 1,963 Phase II – 2,819 Phase III – 3,958
Factory Lot Nos. A5 and A6 Kawasan MIEL Batang Kali Phase II Selangor Darul Ehsan	Industrial land/ Factory and Office premises	28 Apr 2009	Leasehold for 60 years expiring on 13 Oct 2052	2,753 / 879	19	273 / 372
KESP Sdn. Bhd.						
Plot 253 Jalan Kampong Jawa Bayan Lepas Free Industrial Zone (Phase 3) Penang	Industrial land/ Factory and Office premises	16 Apr 2009	Leasehold for 60 years expiring on 7 Aug 2045	8,085 / 11,617	Phase I – 18 Phase II – 14 Phase III – 11	2,314/ 9,188
42-17-19 Desa Green Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	21	109
15-4-7 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	18	100
15-7-4 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	18	100
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	17	109
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	17	110
33-11-21 Taman Pekaka Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	14	118
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	17	112
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	17	112

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Thirty-Ninth Annual General Meeting of the Company will be held in the Kristal Suite 1&2, 1st Floor, West Wing, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Tuesday, 11 January 2011 at 10.30 a.m. for the following purposes: -

A G E N D A

1. To receive the Audited Financial Statements for the financial year ended 31 July 2010 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 3 sen per share in respect of the financial year ended 31 July 2010. **Resolution 2**

3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2010. **Resolution 3**

4. To re-elect the following Directors who are retiring pursuant to Article 80 of the Company's Articles of Association and being eligible, have offered themselves for re-election: -

   (a) Ms Lim Mee Ing **Resolution 4**
   (b) Dato' Dr. Norraesah Haji Mohamad **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 Resolution as Special Resolution:-

   Proposed Amendment to the Articles of Association

   "THAT the existing Article 142 be amended as follows: **Resolution 7**

   Existing Article 142

   Payment of cheque

   Any dividend, interest or other money payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the registered address of the holder. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent, and the payment of such cheque or warrant shall operate as a good discharge to the Company in respect of dividend represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that the endorsement thereon has been forged. Every such cheque or warrant shall be sent at the risk of the person entitled to the money thereby represented.

New Article 142

Payment of **dividend**

Any dividend, interest or other money payable in cash in respect of shares may be paid by cheque or warrant sent through the post directed to the **last** registered address of the **member or by direct transfer or such other mode of electronic means (subject to the provision of the Act, the Depositories Act and the Rules, the Listing Requirements and/or other regulatory authorities) to the bank account of the member whose name appears in the Record of Depositors.** Every such cheque or warrant **or payment by direct transfer** shall be made payable to the order of the person to whom it is sent, and the payment of such cheque or warrant **or payment by such electronic means** shall operate as a good discharge to the Company in respect of dividend represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that the endorsement thereon has been forged **or of any discrepancy given by the member in the details of the bank account**. Every such cheque or warrant **or electronic transfer or remittance** shall be sent at the risk of the person entitled to the money thereby represented."

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.

BY ORDER OF THE BOARD
LEONG OI WAH (MAICSA 7023802)
TAI LI CHING (MAICSA 7053542)
Company Secretaries

Petaling Jaya
28 October 2010

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.

NOTICE OF ANNUAL GENERAL MEETING

Notes on Retirement of Directors

The Directors retiring at the Thirty-Ninth Annual General Meeting are Encik Ahmad Riza Bin Basir, Ms Lim Mee Ing and Dato' Dr. Norraesah Haji Mohamad.

Encik Ahmad Riza bin Basir has advised that he does not wish to seek for re-election at the Thirty-Ninth Annual General Meeting.

Explanatory Notes on Special Business: -

The proposed Resolution 7 is to amend the Company's Articles of Association in line with the amendments to Main Market Listing Requirements of Bursa Malaysia Securities Berhad in relation to e-Dividend.

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that the First and Final Tax Exempt Dividend of 3 sen per share in respect of the financial year ended 31 July 2010, if approved at the forthcoming Annual General Meeting, will be paid on 24 January 2011 to Depositors registered in the Record of Depositors on 12 January 2011. 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 12 January 2011, 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)
TAI LI CHING (MAICSA 7053542)
Company Secretaries

Petaling Jaya
28 October 2010

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-Ninth Annual General Meeting of the Company to be held at Kristal Suite 1&2, 1st Floor, West Wing, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Tuesday, 11 January 2011 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.	Receipt of Audited Financial Statements together with the Reports of the Directors and Auditors thereon		
2.	Approval of first and final dividend		
3.	Approval of Directors' fees		
4.	Re-election of Ms Lim Mee Ing as Director		
5.	Re-election of Dato' Dr. Norraesah Haji Mohamad as Director		
6.	Re-appointment of Auditors		
7.	Approval of proposed amendments to the Articles of Association		

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

Total Number of Shares Held	

Signed this __________ day of ____________ 2010 / 2011

____

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 Secretaries
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, SS 8/4 Sungei Way Free Industrial Zone
47300 Petaling Jaya, Selangor Darul Ehsan
MALAYSIA

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