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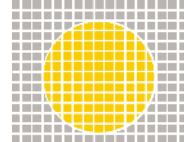
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KESM INDUSTRIES BERHAD
(13022-A)

Annual Report 2007

A Member Of



SUNRIGHT

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KESM,
A World Class Service
Company

Ensuring Device Reliability
For A World Of Electronic
Products



Chairman's Statement

Dear Fellow Shareholders

For KESM, financial year 2007 was a year of records and the achievements of new milestones. Once again, we delivered multiple growths in our financial results, further increasing our revenue, net earnings, earnings per share and cash holdings. We achieved 29 percent growth in revenues to RM209.7 million from RM162.2 million in the last financial year. KESM accomplished a profit after tax of RM22.6 million, an improvement of 46 percent in financial year 2006. We increased earnings per share by 44 percent to 47.5 sen. The Group ended the financial year with a 58 percent improvement in cash.

We achieved record shipment of 500 million devices and continued our unprecedented growth in our core business including burn-in and test services as well as our electronic manufacturing services ("EMS"). We expanded our capability in "burn-in and testing" for a wider range of automotive devices, mobile phones, wireless devices and chips for consumer products enhancing lifestyle and modern living. We expanded our workforce to 1,100 and increased a score of engineers together with highly skilled technical support personnel to ensure that our customers' devices are tested reliably and delivered on time. Our commitment to training and a persistent focus on customer service have enabled us to establish a reputation in the industry. These strategic investments are helping us as a world class service company, providing services to world class U.S. Fortune 500 companies. I have written consistently about these factors for a decade. I reiterate them yet again this year because I remain confident that these factors, which form the cornerstone for our business, will enable KESM to propel further ahead, and deliver results.

Current Year Developments

In July 2007, we announced the incorporation of a company in China. We are excited about embarking our first, international expansion in the Greater China market. We signed an agreement with one of our major customers to establish "burn-in and testing" services in Tianjin, China. The facilitation of a 40,000 sq. ft. manufacturing

plant is now in progress. The site is in close proximity to our customer and it will be our third manufacturing facility besides Kuala Lumpur and Penang. We made capital contribution of RM20 million for this initial phase. This new expansion is an important milestone and we are looking forward to this development with great enthusiasm, though we remain cautious as we enter uncharted water.

Our focus on high growth and highly competitive markets is paying off. Our customers compete aggressively by bringing many new innovative chips such as leading multi-core processor that integrates audio, digital video and communication processing in a single chip. The challenge of responding to the demand for miniaturization at low cost, driven by consumer electronics and the need to increase integration of chips to a single chip, or commonly known in the industry as Systems on Chips, "SOC" is increasing. The "burn-in and test" of "SOC" requires a variety of equipment. This has been an on-going requirement since 2006. This year is no exception. We invested RM24.3 million in equipment. This demand will develop into a greater challenge in 2008 for KESM. We have been purchasing new models of equipment to test a wider range of devices, from the extremely price-sensitive devices to the most complex high performance chips by applying high parallelism or the ability to test multiple devices simultaneously.

We continue to improve our manufacturing efficiency through "continuous improvement programs" involving varying levels of training aimed at improving operational excellence. These efforts achieved improvements in our process quality and provided positive gains to customers' manufacturing yield, giving added value to our services. We are proud to be recognized by them for our efforts and they reciprocated their appreciation through recognition awards. With the initiation of "Lead Free Environment", we installed new dedicated equipment to achieve environmentally compliant standards. As our customers face new challenges in their product designs, environmentally compliant components would impact today's design decisions for tomorrow's products.

+29%
Revenue

+46%
Net Earnings

+44%
EPS

+58%
Cash*

*Cash & Cash Equivalents

Business Outlook

The outlook is good in semiconductor "burn-in and test" services. Testing of micro chips to ensure reliability is not only a good business, it is also a necessary business. Our homes, our businesses, our automobiles, our schools and hospitals are literally filled with electronic devices that we come to depend on. Very often, however, our safety, our health and our lives are dependent on the electronic devices. The semiconductor market continues to expand and electronic devices are proliferating into our daily lives more rapidly than any time in our history. Reliability does not come easily. It involves "burn-in and test" and fine tuning the manufacturing process established by our customers. Once the device reaches a satisfactory quality and reliability performance level, a more innovative and complex device is introduced for the next generation of new electronic models. The reliability process of collecting data, burn in and test, refining the manufacturing process and re-testing starts all over again for the new device.

"Burn-in and test" is a very highly capitalized business. KESM remains focused in "burn-in and testing" of devices for applications in high growth markets. In 2008, we expect to invest more aggressively than previous years on the latest and advanced "burn-in and test" equipment to service the growing needs of our customers. Our customers face new challenges in chip design for new products entering the market. This brings greater opportunities to KESM. Working closely with our customers in advancing our mutual goals to maintain our leading position as the #1 "burn-in and test service" company in Malaysia will continue to be our key motivation. Leading semiconductor sources expect the semiconductor industry to continue to grow with revenue reaching US\$293 billion or 8.7 percent in 2008.

Even in light of such positive news, and our efforts to align our investments in high growth semiconductor market segments, we should not be too euphoric. As consumer electronic products are an integral part of

our daily lives, the demands of the world's semiconductor would become more influenced by the world's economic trends. The concern of housing slump in the United States may deepen, the recent problems of "sub-prime" storm brewing, if not resolved on a timely basis, could also have an impact on the semiconductor industry growth and may affect our business as well.

Dividend

The Board recommended a first and final tax exempt dividend of 3 percent, amounting to approximately RM1,290,000 in respect of the financial year ended 31 July 2007. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the dividend will be paid on 5 February 2008.

Appreciation

Our achievements did not happen overnight, nor did they come easily. Our successful progress is really the consistent years of our strategic investments and our precision in executing the right moves. Kudos to the Management and teams of supportive staff for doing such a SPLENDID job as we crossed the RM200 million mark in sales.

I want to express my appreciation and on behalf of the Board of Directors, to our dedicated employees for the excellent work they have accomplished in the last financial year. I want to assure you, our shareholders, that together with my colleagues in the Company, we will do our utmost to ensure that 2008 will be yet another good year for KESM.

Samuel Lim Syn Soo

Executive Chairman

1 October 2007

Board of Directors



Mr. Samuel Lim Syn Soo
Aged 53, 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 he has more than 35 years of experience in the semiconductor and electronics industry. Prior to 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 3 patents in recognition of his inventions in various solutions involving "Burn-in and test". He also sits on the Boards 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 Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	Nil	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)
Share options of RM1.00 each	216,800	Nil



Mr. Kenneth Tan Teoh Khoon
Aged 50, Singaporean
Non-Independent Executive Director

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

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

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

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

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

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



Ms. Lim Mee Ing
Aged 56, 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 Boards of several other private limited companies in Singapore and China.

Board of Directors



Dato' Dr. Norraesah Haji Mohamad
Aged 59, 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 35 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, SBC Corporation Berhad and Malaysian Oxygen 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 Shareholdings	Indirect Shareholdings
Ordinary Shares of RM1.00 each	7,500	Nil



Encik Ahmad Riza Bin Basir
Aged 47, 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 Arts in Law (Honours) degree from 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. He is currently the Chairman of Fima Corporation Berhad. In addition, he is the Group Managing Director of Kumpulan Fima Berhad, a Director of Jerneh Asia Berhad, Jerneh Insurance Berhad, Manulife Insurance (Malaysia) Berhad, Malaysian Transnational Trading (MATTRA) Corporation Bhd and United Plantations Berhad. He also sits on the Boards of several other private limited companies in Malaysia.



Tuan Haji Zakariah Bin Yet, AMS, AMN
Aged 52, 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 Human Resource Development.

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 51, 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.

2. CONFLICT OF INTEREST

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

3. CONVICTIONS OF OFFENCES

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

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2007

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

Corporate Information

BOARD OF DIRECTORS

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

Mr. Kenneth Tan Teoh Khoon
(Executive Director)

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

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

Encik Ahmad Riza Bin Basir
(Independent Non-Executive Director)

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

Mr. Yong Chee Hou
(Independent Non-Executive Director)

AUDIT COMMITTEE

Dato' Dr. Norraesah Haji Mohamad
(Chairman)

Mr. Kenneth Tan Teoh Khoon
(Member)

Encik Ahmad Riza Bin Basir
(Member)

Mr. Yong Chee Hou
(Member)

COMPANY SECRETARY

Ms. Leong Oi Wah (MAICSA 7023802)

REGISTERED OFFICE

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

REGISTRARS

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

STOCK NAME

KESM

BURSA SECURITIES STOCK NO.

9334

Audit Committee's Report

The Audit Committee ("the Committee") of KESM Industries Berhad is pleased to present the Audit Committee's Report for the financial year ended 31 July 2007 ("Year 2007").

MEMBERS OF THE AUDIT COMMITTEE

The Committee currently comprises the following directors:-

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

The Committee is governed by the Terms of Reference as set out after this Report.

MEETINGS DURING THE YEAR

The Committee met four (4) times in Year 2007. 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 is as follows:

Name of Member	Designation	No. of Meetings held during the year	No. of Meetings attended	Percentage %
Dato' Dr. Norraesah Haji Mohamad	Chairman	4	3	75
Mr. Kenneth Tan Teoh Khoon	Member	4	4	100
Encik Ahmad Riza Bin Basir	Member	4	3	75
Mr. Yong Chee Hou	Member	4	4	100

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During Year 2007, the Committee:-

1. reviewed the external auditors' reports in relation to the audit for the year ended 31 July 2006.
2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2006 to be presented to the Board of Directors for approval.
3. recommended the re-appointment of the external auditors.
4. reviewed, discussed and recommended the unaudited quarterly results of the Group to be presented to the Board of Directors for approval.
5. reviewed and recommended related party transactions of the Group to be presented to the Board of Directors for ratification and approval.
6. reviewed and approved Internal Audit Charter and 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 2006 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 2006 and presented to the Board of Directors for approval.
10. reviewed and endorsed the amendments made to the Related Party Transactions Policy and Guidelines of the Company.

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 have been approved by the Committee. To monitor and ensure that audit recommendations have been effectively implemented, follow-up audit reviews reports on prior years' audits were also presented to the Committee.

EMPLOYEES SHARE OPTION SCHEME ("ESOS")

In Year 2007, there was no share option granted to the employees.

Terms of Reference of Audit Committee

1. CONSTITUTION

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

2. COMPOSITION / QUORUM

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

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

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

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

3. TERMS OF MEMBERSHIP

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

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

4. CHAIRMAN

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

5. SECRETARY

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

6. MEETINGS

The Committee shall meet at least four times a year.

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

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

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

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

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

7. ATTENDANCE AT MEETINGS

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

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

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

8. RESOLUTIONS IN WRITING

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

Terms of Reference of Audit Committee

9. AUTHORITY AND RIGHTS

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

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

10. DUTIES

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

The duties of the Committee shall be:-

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

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

11. REPORTING PROCEDURE

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

Corporate Governance Statement

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

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

BOARD OF DIRECTORS

Board Composition and Balance

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

As at the date of this report, the Board comprises seven (7) directors, five (5) of whom are non-executive. Of the non-executive directors, three (3) are independent. 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.

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

The Board 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, one third of the Board is required to retire at every Annual General Meeting ("AGM") and be subject to re-election by shareholders. Newly appointed directors shall hold office until the 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.

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 programmes and external training programmes that are deemed appropriate to aid them in the discharge of their duties as directors.

In financial year 2007, the Directors attended two in-house trainings conducted by the Secretary in respect of the updates on the major amendments made to the Listing Requirements of Bursa Malaysia Securities Berhad and Investor Relations. Other than the aforesaid in-house trainings, the following directors had also attended the following training programmes:

Director	Mode of Training	Title of Training	Duration of Training
Ahmad Riza Basir	Seminar	Leadership in Challenging Times	2-day
Dato' Dr. Norraesah Haji Mohamad	Seminar	Boardroom briefing for PLC Directors/CEOs	1-day
	Forum	Second World Islamic Forum "Unleashing the Potential of Emerging Markets – Business Beyond Borders"	3-day
	Forum	WIFE Businesswomen Network Forum & Exposition – "Women Entrepreneurs – The Way Forward"	1-day
Tuan Haji Zakariah Bin Yet	Seminar	Leadership Succession Planning	2-day
	Workshop	Total Rewards (Workshop A)	2-day
	Workshop	Total Rewards (Workshop B)	2-day

In addition, during the financial year 2007, Dato' Dr. Norraesah Haji Mohamad had participated as speaker at local convention to deliver several talks on business related issues. These talks covered topics such as "Entrepreneurship & the Global World", "Women as Business Leaders: Sharing Our Story" and "Gender Dimension of the Ninth Malaysia Plan".

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.

Corporate Governance Statement

SUPPLY OF INFORMATION

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

Prior to each Board and Audit Committee meeting, every director is given 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.

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

As a guide, the Company seeks out prevailing market practices to determine the remuneration packages for directors. Disclosure on directors' remuneration can be found on Note 5 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" and "Terms of Reference of Audit Committee" sections 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.

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.

Corporate Governance Statement

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 role of the Audit Committee in relation to the external auditors is described in the "Audit Committee's Report" section of this Annual Report.

RELATIONS WITH SHAREHOLDERS

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

Additionally, the AGM and/or Extraordinary General Meetings 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 AGMs is accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of issues involved.

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

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

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Apart from the dual roles held by the Executive Chairman/CEO and the setting up of a Nomination Committee and a Remuneration Committee, the Board considers that the Company has substantially complied with the Best Practices as set out in the Code for the financial year ended 31 July 2007.

This statement is made in accordance with the resolution of the Board of Directors at its meeting held on 18 September 2007.

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.

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 18 September 2007.

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the year ended 31 July 2007.

PRINCIPAL ACTIVITIES

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

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

RESULTS

	Group RM'000	Company RM'000
Profit for the year	22,607	12,133
Attributable to:		
Equity holders of the Company	20,431	12,133
Minority interests	2,176	-
	22,607	12,133

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

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 2007, the Company paid a first and final tax exempt dividend of 3 sen (2006: 1.75 sen) per share amounting to RM1,290,015 (2006: RM752,509), as reported in the Directors' report of the previous financial year.

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2007, of 3 sen per ordinary shares will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 July 2008.

Directors' Report

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

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

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

	Number of Ordinary Shares of RM1.00 Each			At 31.7.2007
	At 1.8.2006	Bought	Sold	
Dato' Dr Norraesah Haji Mohamad				
- Direct interest	7,500	-	-	7,500
- Deemed interest	604,500	-	(604,500)	-
Samuel Lim Syn Soo				
- Deemed interest	20,825,000	-	-	20,825,000

	Option Price	Options to Subscribe for Ordinary Shares of RM1.00 Each		At 31.7.2007	
		At 1.8.2006	Granted		Exercised
Samuel Lim Syn Soo					
First Option*	RM2.192	50,000	-	-	50,000
Second Option*	RM2.464	50,000	-	-	50,000
Third Option*	RM2.344	50,000	-	-	50,000
Fourth Option	RM3.100	34,000	-	-	34,000
Fifth Option	RM2.500	20,000	-	-	20,000
Sixth Option	RM1.927	12,800	-	-	12,800

Directors' Report

DIRECTORS (CONTD.)

	Option Price	Options to Subscribe for Ordinary Shares of RM1.00 Each			At 31.7.2007
		At 1.8.2006	Granted	Exercised	
Kenneth Tan Teoh Khoon					
First Option*	RM2.192	50,000	-	-	50,000
Second Option*	RM2.464	50,000	-	-	50,000
Third Option*	RM2.344	50,000	-	-	50,000
Fourth Option	RM3.100	34,000	-	-	34,000
Fifth Option	RM2.500	20,000	-	-	20,000
Sixth Option	RM1.927	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.

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

SHARE CAPITAL

No new shares were issued during the financial year.

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.

Directors' Report

EMPLOYEES SHARE OPTION SCHEME ("ESOS") (CONTD.)

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 2007 are as follows:

	Date of Grant	Option Price	Number of Options				Total Available
			Granted	Accepted	Exercised	Lapsed	
		RM					
First Option*	6/12/2000	2.192	1,001,000	997,000	(386,500)	(183,000)	427,500
Second Option*	17/4/2002	2.464	462,000	461,000	(40,000)	(36,000)	385,000
Third Option*	24/9/2002	2.344	460,000	456,000	(38,000)	(61,000)	357,000
Fourth Option	23/4/2004	3.100	312,800	297,800	-	(20,000)	277,800
Fifth Option	23/3/2005	2.500	168,000	151,000	-	(22,000)	129,000
Sixth Option	15/11/2005	1.927	160,000	138,200	-	(15,000)	123,200
			2,563,800	2,501,000	(464,500)	(337,000)	1,699,500

* 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.
- (b) At the date of this report, the Directors are not aware of any circumstances which would render:
 - (i) it necessary to write off any debts or to make any provision for doubtful debts in respect of these financial statements; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

Directors' Report

OTHER STATUTORY INFORMATION (CONTD.)

- (c) At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) As at the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the Directors:
 - (i) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made; and
 - (ii) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations as and when they fall due.

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 18 September 2007.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Kuala Lumpur, Malaysia

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 71 are drawn up in accordance with applicable Financial Reporting Standards in Malaysia and the provisions of the Companies Act 1965 so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2007 and of the results and the cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 September 2007.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Kuala Lumpur, Malaysia

Statutory Declaration

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

I, Kenneth Tan Teoh Khoon, being the Director primarily responsible for the financial management of KESM Industries Berhad, do solemnly and sincerely declare that the financial statements set out on pages 32 to 71 are to my best knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Oaths and Declarations Act 2000.

Subscribed and solemnly declared by the abovementioned
Kenneth Tan Teoh Khoon in Singapore on 11 October 2007

Kenneth Tan Teoh Khoon

Before me,

Chia Choon Yang
Notary Public

Report of the Auditors

To the Members of KESM Industries Berhad
(Incorporated In Malaysia)

We have audited the financial statements set out on pages 32 to 71. These financial statements are the responsibility of the Company's Directors.

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

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

In our opinion:

- (a) the financial statements have been properly drawn up in accordance with the provisions of the Companies Act 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of:
 - (i) the financial position of the Group and of the Company as at 31 July 2007 and of the results and the cash flows of the Group and of the Company for the financial year then ended; and
 - (ii) the matters required by Section 169 of the Companies Act 1965 to be dealt with in the financial statements; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by its subsidiaries have been properly kept in accordance with the provisions of the Act.

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

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

Ernst & Young
AF: 0039
Chartered Accountants

Low Khung Leong
No. 2697/01/09(J)
Partner

Kuala Lumpur, Malaysia
18 September 2007

Income Statements

For the Year Ended 31 July 2007

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Revenue	3	209,661	162,159	50,396	49,685
Other operating income		5,848	1,286	4,497	1,276
Total operating income		215,509	163,445	54,893	50,961
Raw materials and consumables used		(69,125)	(41,903)	(762)	(663)
Staff costs	4	(43,007)	(33,760)	(18,682)	(16,053)
Depreciation of property, plant and equipment		(40,161)	(34,584)	(8,254)	(7,056)
Other operating expenses		(35,785)	(31,499)	(16,734)	(17,403)
Profit from operating activities	5	27,431	21,699	10,461	9,786
Interest income	6	1,566	1,455	1,823	1,249
Finance costs	7	(2,404)	(3,025)	(178)	(324)
Profit before taxation		26,593	20,129	12,106	10,711
Taxation	8	(3,986)	(4,647)	27	(2,573)
Profit for the year		22,607	15,482	12,133	8,138
Attributable to:					
Equity holders of the Company		20,431	14,133	12,133	8,138
Minority interest		2,176	1,349	-	-
		22,607	15,482	12,133	8,138
Earnings per share attributable to equity holders of the Company					
- Basic	9	48 sen	33 sen		
- Diluted	9	48 sen	33 sen		
Dividend per share in respect of the year	10			3.00 sen	3.00 sen

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

Balance Sheets

As at 31 July 2007

	Note	Group		Company	
		2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	11	95,779	111,713	27,696	27,801
Subsidiary companies	12	-	-	4,715	4,715
		95,779	111,713	32,411	32,516
CURRENT ASSETS					
Other investments	13	1,811	3,548	1,811	3,548
Inventories	14	11,243	15,421	177	174
Trade and other receivables	15	43,251	41,860	19,645	35,264
Cash and bank balances	16	89,548	54,262	56,839	29,151
		145,853	115,091	78,472	68,137
CURRENT LIABILITIES					
Trade and other payables	17	27,267	37,829	8,168	6,579
Loans and borrowings	18	17,699	18,463	984	1,108
Taxation		3,853	2,704	3,012	2,390
		48,819	58,996	12,164	10,077
NET CURRENT ASSETS					
		97,034	56,095	66,308	58,060
		192,813	167,808	98,719	90,576
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Share capital	20	43,001	43,001	43,001	43,001
Reserves	21	110,273	91,132	46,471	35,628
		153,274	134,133	89,472	78,629
Minority interest		8,270	6,094	-	-
Total equity		161,544	140,227	89,472	78,629
NON-CURRENT LIABILITIES					
Loans and borrowings	18	16,665	12,667	556	1,395
Deferred tax liabilities	22	14,604	14,914	8,691	10,552
		31,269	27,581	9,247	11,947
		192,813	167,808	98,719	90,576

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

Statements of Changes in Equity

For the Year Ended 31 July 2007

Note	← Attributable to Equity Holders of the Company →						Minority Interests	Total Equity
	← Non-distributable →			Distributable				
	Share capital	Share premium	Asset revaluation reserve	Negative Goodwill	Retained profits	Total		
RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Group								
At 1 August 2005	43,001	649	7,433	430	69,240	120,753	4,745	125,498
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	14,133	14,133	1,349	15,482
Dividend	-	-	-	-	(753)	(753)	-	(753)
At 31 July 2006	43,001	649	7,433	430	82,620	134,133	6,094	140,227
At 1 August 2006								
As previously stated	43,001	649	7,433	430	82,620	134,133	6,094	140,227
Effects of adopting FRS 3	-	-	-	(430)	430	-	-	-
At 1 August 2006 (restated)	43,001	649	7,433	-	83,050	134,133	6,094	140,227
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	20,431	20,431	2,176	22,607
Dividend	10	-	-	-	(1,290)	(1,290)	-	(1,290)
At 31 July 2007	43,001	649	7,433	-	102,191	153,274	8,270	161,544

Statements of Changes in Equity

For the Year Ended 31 July 2007

Note	Share capital RM'000	Share premium RM'000	Non-distributable		Distributable		Total RM'000
			Asset revaluation reserve RM'000	Merger relief reserve RM'000	Retained profits RM'000		
Company							
At 1 August 2005	43,001	649	2,124	1,215	24,255	71,244	
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	8,138	8,138	
Dividend	-	-	-	-	(753)	(753)	
At 31 July 2006	43,001	649	2,124	1,215	31,640	78,629	
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	12,133	12,133	
Dividend	10	-	-	-	(1,290)	(1,290)	
At 31 July 2007	43,001	649	2,124	1,215	42,483	89,472	

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

Cash Flow Statements

For the Year Ended 31 July 2007

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	26,593	20,129	12,106	10,711
Adjustments for:				
Depreciation of property, plant and equipment	40,161	34,584	8,254	7,056
Property, plant and equipment written off	21	4	21	4
Gain on disposal of property, plant and equipment	(1,974)	(141)	(29)	-
Unrealised (gain)/loss on foreign exchange	(8)	294	8	13
Gain on disposal of quoted shares	(3,571)	(765)	(3,571)	(765)
Writedown in value of quoted shares	-	132	-	132
Dividend Income	(220)	(205)	(220)	(205)
Interest income	(1,566)	(1,455)	(1,823)	(1,249)
Interest expense	2,404	3,025	178	324
Operating profit before working capital changes	61,840	55,602	14,924	16,021
Changes in working capital:				
Inventories	4,178	(10,139)	(3)	(19)
Receivables	(1,391)	(3,502)	15,619	(14,317)
Payables	(905)	6,178	1,459	74
Cash generated from operations	63,722	48,139	31,999	1,759
Tax paid	(3,147)	(2,826)	(1,212)	(1,459)
Interest paid	(2,404)	(3,025)	(178)	(324)
Interest received	1,566	1,455	1,823	1,249
Net cash generated from operating activities	59,737	43,743	32,432	1,225

Cash Flow Statements

For the Year Ended 31 July 2007

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investment in quoted shares	(2,096)	(577)	(2,096)	(577)
Proceeds from disposal of quoted shares	7,404	1,746	7,404	1,746
Dividend income	220	205	220	205
Purchase of property, plant and equipment	(29,771)	(26,659)	(7,863)	(5,436)
Proceeds from disposal of property, plant and equipment	2,047	410	80	-
Net cash used in investing activities	(22,196)	(24,875)	(2,255)	(4,062)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of hire purchase obligations	(1,466)	(3,404)	(446)	(1,608)
Repayments of term loans	(20,646)	(26,161)	(753)	(2,180)
Drawdown of term loans	21,147	11,176	-	2,374
Dividend paid	(1,290)	(753)	(1,290)	(753)
Net cash used in financing activities	(2,255)	(19,142)	(2,489)	(2,167)
NET CHANGE IN CASH AND CASH EQUIVALENTS	35,286	(274)	27,688	(5,004)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	54,262	54,536	29,151	34,155
CASH AND CASH EQUIVALENTS AT END OF YEAR	89,548	54,262	56,839	29,151
Cash and cash equivalents at end of year comprise:				
Deposits with licensed banks	75,922	49,544	48,514	26,958
Cash and bank balances	13,626	4,718	8,325	2,193
	89,548	54,262	56,839	29,151

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

Notes to the Financial Statements

- 31 July 2007

1. CORPORATE INFORMATION

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

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

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

The financial statements are expressed in Ringgit Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 18 September 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The financial statements of the Group and of the Company are prepared under the historical cost convention, modified to include the revaluation of certain property, plant and equipment and comply with the provisions of the Companies Act 1965 and applicable Financial Reporting Standards in Malaysia. At the beginning of the current financial year, the Group and the Company had adopted new and revised Financial Reporting Standards ("FRS") which are mandatory for financial periods beginning on or after 1 January 2006 as described fully in Note 2.3.

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 Summary of Significant Accounting Policies

(a) Basis of Consolidation

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

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

Any excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised immediately in profit or loss.

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

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(a) Basis of Consolidation (Contd.)

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

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

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

(b) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities.

In the Company's separate financial statements, investments in subsidiaries are stated at cost less impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

(c) Revenue Recognition

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. The following specific recognition criteria must also be met before revenue is recognised.

(i) Revenue from burn-in and testing services

Revenue arising from burn-in and testing of semiconductor 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 on an accrual basis.

(iii) Dividend income

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

(iv) Rental income

Rental income is recognised over the period of tenancy.

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(d) Property, Plant and Equipment and Depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charge to the income statement during the financial period in which they are incurred.

Subsequent to recognition, property, plant and equipment are stated at cost or valuation less accumulated depreciation and impairment losses.

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

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

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

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

Where an indication of impairment exists, the carrying value of the asset is assessed and written down immediately to its recoverable amount. The policy for the recognition and measurement of impairment losses is in accordance with Note 2.2(e).

Leasehold land is amortised over the unexpired lease period of 38 years. Depreciation of property, plant and equipment is provided for on a straight line basis to write off the cost of each asset to its residual value over the estimated useful life at the following annual rates:

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

No depreciation is provided on capital work-in-progress.

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(d) Property, Plant and Equipment and Depreciation (Contd.)

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

(e) Impairment of Assets

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

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

(f) Inventories

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

(g) Financial Instruments

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

(i) Short Term Investments

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

(ii) Receivables

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

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(g) Financial Instruments (Contd.)

(iii) Payables

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

(iv) Interest-Bearing Borrowings

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

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

(h) Leases

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

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

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

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

(i) Income Tax

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

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

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(i) Income Tax (Contd.)

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

(j) Cash and Cash Equivalents

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

(k) Provisions

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

(l) Employee Benefits

(i) Short Term Benefits

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

(ii) Defined Contribution Plans

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

(iii) 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.

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.2 Summary of Significant Accounting Policies (Contd.)

(l) Employee Benefits (Contd.)

(iv) Equity Compensation Benefits

The Company's Employees Share Option 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.

(m) Functional and foreign currency

(i) Functional and Presentation currency

Items included in the financial statements are measured using the currency that best reflects the economy substance of the underlying events and circumstances relevant to the Group. The financial statements are presented in Ringgit Malaysia, which is the functional currency of the Group.

(ii) Foreign Currencies

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

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

	2007 RM	2006 RM
Singapore Dollars	2.25	2.31
United States Dollars	3.44	3.67
Japanese Yen (equivalent to 100 units)	2.86	3.19
Euro Dollars	4.64	4.57

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs

Most of the new and revised FRSs which are mandatory for companies with financial periods beginning on or after 1 January 2006 are not relevant to the Group and the Company. Those FRSs that are relevant do not give rise to any significant effects on the financial statements of the Group and the Company.

The Group and the Company has not adopted the following FRSs, amendments to FRS and Interpretations which were issued but not yet effective and have not been applied by the Group and the Company:

FRS	Effective for financial periods beginning on or after
FRS 117 - Leases	1 October 2006
FRS 124 - Related Party Transactions	1 October 2006
Amendment to FRS 119 ₂₀₀₄ - Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
FRS 6 - Exploration for and Evaluation of Mineral Resources	1 January 2007
FRS 107 - Cash Flow-Statements	1 July 2007
FRS 111 - Construction Contracts	1 July 2007
FRS 118 - Revenue	1 July 2007
FRS 119 - Employee Benefits	1 July 2007
FRS 120 - Accounting for Government Grants and Disclosure of Government Assistance	1 July 2007
FRS 126 - Accounting and Reporting by Retirement Benefits Plans	1 July 2007
FRS 134 - Interim Financial Reporting	1 July 2007
FRS 137 - Provisions, Contingent Liabilities and Contingent Assets	1 July 2007
FRS 139 - Financial Instruments: Recognition and Measurement	Effective date deferred
Amendments to FRS 121: The effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 July 2007
IC Interpretation 1: Changes in Existing Decommissioning, Restoration & Similar Liabilities	1 July 2007
IC Interpretation 2: Members' Shares in Co-operative Entities & Similar Instruments	1 July 2007
IC Interpretation 5: Rights to Interests arising from Decommissioning, Restoration & Environmental Rehabilitation Funds	1 July 2007
IC Interpretation 6: Liabilities arising from Participating in a Specific Market - Waste Electrical & Electronic Equipment	1 July 2007
IC Interpretation 7: Applying the Restatement Approach under IAS 292004 Financial Reporting in Hyperinflationary Economies	1 July 2007
IC Interpretation 8: Scope of FRS 2	1 July 2007

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs (Contd.)

The FRS mentioned, amendments to FRS and Interpretations are expected to have no significant impact on the financial statements of the Group and the Company. The Group and the Company are exempted from disclosing the possible impact, if any, to the financial statements upon the initial application of FRS 117, FRS 124 and FRS 139.

(a) FRS 3: Business Combinations

Excess of Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as negative goodwill)

Prior to 1 January 2006, negative goodwill was not amortised. Under FRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisitions, after reassessment, is not recognised immediately in profit or loss. In accordance with transitional provisions of FRS 3, the negative goodwill as at 1 August 2006 of RM429,831 was derecognised with a corresponding increase in retained earnings.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2006 and prior periods. The effects on the consolidated balance sheet as at 31 July 2007 is set out in Note 2.3(c). These changes in presentation have no impact on the Company's financial statements.

(b) FRS 101: Presentation of Financial Statements

Prior to 1 January 2006, minority interests at the balance sheet were presented in the consolidated balance sheet separately from liabilities and equity. Upon the adoption of the revised FRS 101, minority interests are now presented within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total profit or loss for the year. A similar requirement is also applicable to the statement of changes in equity. The revised FRS 101 also requires disclosure, on the face of the statement of changes in equity, total recognised income and expenses for the year, showing separately the amounts attributable to equity holders of the Company and to minority interests.

These changes in presentation have been applied retrospectively and as disclosed in Note 2.3(d), certain comparatives have been restated. The effects on the consolidated balance sheet as at 31 July 2007 is set out in Note 2.3(c). These changes in presentation have no impact on the Company's financial statements.

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.3 Changes in Accounting Policies, Effects and Changes in Comparatives Arising from Adoption of New and Revised FRSs (Contd.)

(c) Summary of effects and changes arising from adoption of new and revised FRSs

The following table provides estimate of the extent to which each of the line items in the balance sheet as at 31 July 2007 is higher or lower than it would have been had the previous policies been applied in the current year:

Effects on balance sheet as at 31 July 2007

Description of change	← Increase/(Decrease) →		
	FRS 3 Note 2.3(a)	FRS 101 Note 2.3(b)	Total
	RM'000	RM'000	RM'000
Group			
Negative goodwill	(430)	-	(430)
Retained profits	430	-	430
Total equity	-	8,270	8,270

(d) Restatement of comparatives

Description of change	← Increase/(Decrease) →		
	Previously stated	FRS 101 Note 2.3(b)	Restated
	RM'000	RM'000	RM'000
As at 31 July 2006			
Total equity	134,133	6,094	140,227

2.4 Significant Accounting Estimates and Judgements

The preparation of financial statements in conformity with Financial Reporting Standards (FRS) requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Notes to the Financial Statements

- 31 July 2007

2. SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

2.4 Significant Accounting Estimates and Judgements (Contd.)

(a) Key sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and unabsorbed capital allowances to the extent that it is probable that taxable profit will be available against which the losses and capital allowances can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The details are as disclosed in Note 22.

(ii) Depreciation of plant, machinery and test equipment

The cost of plant, machinery and test equipment for the burn-in and testing services is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant, machinery and test equipment to be within 1.5 to 10 years. These are common life expectancies applied in the semiconductor industry. Changes in the expected level of usage and technological developments could impact the economical useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(iii) Reinvestment allowance claims

In arriving at the tax payable for the year, the Group and the Company have claimed relevant deduction under the Reinvestment Allowance. Management, after considering all pertinent information, are of the view that such claims are appropriate. However, sufficient provision has been made in the event the claims are not allowed.

3. REVENUE

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Burn-in and testing services	125,188	111,327	50,396	49,685
Sales and assembly of electronic equipment	84,473	50,832	-	-
	209,661	162,159	50,396	49,685

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4. STAFF COSTS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Salaries and wages	34,692	26,165	12,192	9,951
Pension costs - defined contribution plans	1,789	1,577	573	541
Social security costs	263	226	77	73
Short term accumulating compensated absences	56	69	17	66
Others	6,207	5,723	5,823	5,422
	43,007	33,760	18,682	16,053

Staff costs above exclude Directors remuneration.

	Group		Company	
	2007	2006	2007	2006
Average number of employees (excluding Directors) during the year	1,320	1,327	519	492

5. PROFIT FROM OPERATING ACTIVITIES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Profit from operations is arrived at:				
After charging:				
Auditors' remuneration	161	123	87	58
Directors' emoluments	1,906	1,796	896	856
Depreciation of property, plant and equipment	40,161	34,584	8,254	7,056
Writedown in value of quoted share	-	132	-	132
Rent of equipment	50	54	-	-
Rent of factory	1,049	1,049	1,049	1,049
Realised loss on foreign exchange	26	21	-	4
Unrealised loss on foreign exchange	93	294	8	13
Property, plant and equipment written off	21	4	21	4

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5. PROFIT FROM OPERATING ACTIVITIES (CONTD.)

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
and crediting:				
Bad debt recovered	13	8	-	-
Realised foreign exchange gain	2	-	2	-
Unrealised foreign exchange gain	101	-	-	-
Gain on disposal of property, plant and equipment	1,974	141	29	-
Gain on disposal of quoted shares	3,571	765	3,571	765
Gross dividends from other investments	220	205	220	205
Rental income from a subsidiary	-	-	611	325

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000

Directors' Emoluments

Directors of the Company

Executive				
- fees	1,062	992	62	62
- salaries and other emoluments	697	657	697	657
	1,759	1,649	759	719
Non-Executive				
- fees	134	134	124	124
- allowances	13	13	13	13
	147	147	137	137
Total Directors' emoluments	1,906	1,796	896	856

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5. PROFIT FROM OPERATING ACTIVITIES (CONTD.)

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

	Number of Directors	
	2007	2006
Executive Directors:		
RM350,001 to RM400,000	1	1
RM1,250,001 to RM1,300,000	1	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:

	Group/Company	
	2007 '000	2006 '000
Balance brought forward	434	408
Granted	-	26
Balance carried forward	434	434

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

6. INTEREST INCOME

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest income from:				
- deposits with licensed banks	1,566	1,455	1,086	909
- loan to subsidiary	-	-	220	221
- advance to subsidiary	-	-	517	119
	1,566	1,455	1,823	1,249

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7. FINANCE COSTS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Interest expense on:				
- term loans	2,063	2,444	122	130
- hire purchase contracts	160	387	50	194
- loan from corporate shareholder	117	117	-	-
- revolving credits	64	77	6	-
	2,404	3,025	178	324

8. TAXATION

Domestic current income tax is calculated at the statutory tax rate of 27% (2006: 28%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 26% from the current year's rate of 27%, effective year of assessment 2008. The computation of deferred tax as at 31 July 2007 has reflected these changes.

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Malaysian taxation based on results for the year:				
- current	4,202	2,786	1,739	1,112
- under/(over) provision in in prior years	94	(399)	95	-
	4,296	2,387	1,834	1,112
Deferred tax (Note 22)				
- current	1,022	2,329	(429)	1,488
- relating to changes in tax rates	132	-	54	-
- over provision in prior years	(1,464)	(69)	(1,486)	(27)
	(310)	2,260	(1,861)	1,461
	3,986	4,647	(27)	2,573

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8. TAXATION (CONTD.)

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

	Group	
	2007 RM'000	2006 RM'000
Profit before taxation	26,593	20,129
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	7,180	5,636
Effect of different tax rates used due to incentives and others	(70)	(80)
Effect of changes in tax rates on opening balance of deferred tax	131	-
Income not subject to tax	(1,019)	(50)
Expenses not deductible for tax purpose	797	178
Net utilisation of reinvestment allowances	(1,663)	(569)
Under/(over) provision of income tax expense in prior years	94	(399)
Over provision of deferred tax in prior years	(1,464)	(69)
Tax charge for the year	3,986	4,647
	Company	
	2007 RM'000	2006 RM'000
Profit before taxation	12,106	10,711
Taxation at Malaysian statutory tax rate of 27% (2006: 28%)	3,269	2,999
Effect of changes in tax rates on opening balance of deferred tax	54	-
Income not subject to tax	(1,019)	(46)
Expenses not deductible for tax purpose	464	105
Utilisation of reinvestment allowances	(1,404)	(458)
Under provision of income tax expense in prior years	95	-
Over provision of deferred tax in prior years	(1,486)	(27)
Tax charge for the year	(27)	2,573

Notes to the Financial Statements

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9. EARNINGS PER SHARE

	Group	
	2007 RM'000	2006 RM'000
Profit attributable to ordinary equity holders of the Company	20,431	14,133
	Number ('000)	Number ('000)
Weighted average number of ordinary shares in issue for basic earnings per share	43,001	43,001
Basic earnings per share	48 sen	33 sen
Diluted earnings per share	48 sen	33 sen

The effect on the basic earnings per share for the current financial year arising from the assumed conversion of the options is anti-dilutive. Accordingly, the diluted earnings per share for the current year is presented as equal to basic earnings per share.

10. DIVIDEND

	Dividends in respect of Year		Dividends Recognised in Year	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Recognised during the year:				
First and final tax exempt dividend for 2006: on 43,000,500 ordinary shares (3 sen per ordinary share)	-	1,290	1,290	753
Proposed for approval at AGM (not recognised as at 31 July):				
First and final tax exempt dividend for 2007: on 43,000,500 ordinary shares (3 sen per ordinary share)	1,290	-	-	-

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11. PROPERTY, PLANT AND EQUIPMENT

	Short term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group								
31 July 2007								
Cost/Valuation								
At 1 August 2006	6,520	22,350	2,294	257,677	1,059	6,631	16,959	313,490
Additions	-	-	398	17,788	367	654	5,114	24,321
Disposals	-	-	-	(6,791)	(230)	(104)	-	(7,125)
Write off	-	-	(187)	(7,457)	-	(174)	-	(7,818)
Reclassification	-	-	258	19,457	-	35	(19,750)	-
At 31 July 2007	6,520	22,350	2,763	280,674	1,196	7,042	2,323	322,868
Accumulated Depreciation and Impairment Losses								
At 1 August 2006	214	2,839	1,728	191,281	657	5,058	-	201,777
Depreciation charge	140	1,704	256	37,025	188	848	-	40,161
Disposals	-	-	-	(6,771)	(179)	(102)	-	(7,052)
Write off	-	-	(187)	(7,442)	-	(168)	-	(7,797)
At 31 July 2007	354	4,543	1,797	214,093	666	5,636	-	227,089
Net Carrying Amount								
At 31 July 2007:								
At cost	-	-	966	66,581	530	1,406	2,323	71,806
At valuation	6,166	17,807	-	-	-	-	-	23,973
	6,166	17,807	966	66,581	530	1,406	2,323	95,779

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11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Short term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group								
31 July 2006								
Cost/Valuation								
At 1 August 2005	6,520	22,350	2,032	239,039	1,016	6,128	1,530	278,615
Additions	-	-	262	18,175	43	636	16,959	36,075
Disposals	-	-	-	(319)	-	(6)	-	(325)
Write off	-	-	-	(748)	-	(127)	-	(875)
Reclassification	-	-	-	1,530	-	-	(1,530)	-
At 31 July 2006	6,520	22,350	2,294	257,677	1,059	6,631	16,959	313,490
Accumulated Depreciation and Impairment Losses								
At 1 August 2005	71	1,308	1,540	160,301	507	4,393	-	168,120
Depreciation charge	143	1,531	188	31,777	150	795	-	34,584
Disposals	-	-	-	(51)	-	(5)	-	(56)
Write off	-	-	-	(746)	-	(125)	-	(871)
At 31 July 2006	214	2,839	1,728	191,281	657	5,058	-	201,777
Net Carrying Amount								
At 31 July 2006:								
At cost	-	-	566	66,396	402	1,573	16,959	85,896
At valuation	6,306	19,511	-	-	-	-	-	25,817
	6,306	19,511	566	66,396	402	1,573	16,959	111,713

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11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Short term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in- progress	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company								
31 July 2007								
Cost/Valuation								
At 1 August 2006	3,820	11,030	1,338	83,084	509	3,968	-	103,749
Additions	-	-	58	3,976	327	131	3,729	8,221
Disposal	-	-	-	-	(193)	-	-	(193)
Write off	-	-	(187)	(4,403)	-	(174)	-	(4,764)
Reclassification	-	-	258	2,499	-	35	(2,792)	-
At 31 July 2007	3,820	11,030	1,467	85,156	643	3,960	937	107,013
Accumulated Depreciation and Impairment Losses								
At 1 August 2006	84	1,326	1,044	70,146	371	2,977	-	75,948
Depreciation charge	78	946	110	6,603	90	427	-	8,254
Disposal	-	-	-	-	(142)	-	-	(142)
Write off	-	-	(187)	(4,388)	-	(168)	-	(4,743)
At 31 July 2007	162	2,272	967	72,361	319	3,236	-	79,317
Net Carrying Amount								
At 31 July 2007:								
At cost	-	-	500	12,795	324	724	937	15,280
At valuation	3,658	8,758	-	-	-	-	-	12,416
	3,658	8,758	500	12,795	324	724	937	27,696

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11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

	Short term leasehold land	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company							
31 July 2006							
Cost/Valuation							
At 1 August 2005	3,820	11,030	1,097	78,201	509	3,629	98,286
Additions	-	-	241	4,887	-	418	5,546
Write off	-	-	-	(4)	-	(79)	(83)
At 31 July 2006	3,820	11,030	1,338	83,084	509	3,968	103,749
Accumulated Depreciation and Impairment Losses							
At 1 August 2005	6	552	968	64,515	304	2,626	68,971
Depreciation charge	78	774	76	5,633	67	428	7,056
Write off	-	-	-	(2)	-	(77)	(79)
At 31 July 2006	84	1,326	1,044	70,146	371	2,977	75,948
Net Carrying Amount							
At 31 July 2006:							
At cost	-	-	294	12,938	138	991	14,361
At valuation	3,736	9,704	-	-	-	-	13,440
	3,736	9,704	294	12,938	138	991	27,801

Notes to the Financial Statements

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11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

- (a) Except for the short term leasehold land and buildings of the Group and the Company, which are carried at valuation, all other property, plant and equipment, are carried at cost. The Group's and the Company's leasehold land and building were revalued by the Directors based on a valuation conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers, in June 2004. The valuers used the comparison method of valuation to determine the market value of the leasehold land and building. 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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Short term leasehold land	454	464	256	261
Buildings	7,899	8,801	3,605	3,981

The Company has not received the title deed to a leasehold land with a carrying amount of RM3,360,000 (2006: RM3,430,000).

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Plant, machinery and test equipment	5,189	3,751	166	1,047
Office equipment, furniture and fittings and computers	272	50	2	50
Motor vehicles	2	172	272	79
	5,463	3,973	440	1,176

The aggregate net book values of plant, machinery and test equipment of the Group and of the Company of RM37,177,000 (2006: RM29,996,000) and RM1,734,000 (2006: RM2,328,000) respectively, are pledged as securities for term loans obtained.

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash payments	19,720	26,024	7,753	5,436
Hire purchase	4,199	-	236	-
Financed by creditors	402	10,051	232	110
	24,321	36,075	8,221	5,546

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11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(d) 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	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
At cost:				
Plant, machinery and test equipment	127,924	125,521	56,410	54,033
Leasehold improvements	1,223	1,371	708	896
Office equipment, furniture and fittings and computers	3,975	3,670	2,222	2,232
Motor vehicles	236	273	172	172
	133,358	130,835	59,512	57,333

12. SUBSIDIARY COMPANIES

	Company	
	2007 RM'000	2006 RM'000
At cost:		
Unquoted shares	4,715	4,715

The subsidiary companies are:

Name of Company	Country of Incorporation	Principal Activities	Equity Interest	
			2007 %	2006 %
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	-

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13. OTHER INVESTMENTS

	Group/Company	
	2007 RM'000	2006 RM'000
Shares quoted in Malaysia		
- At cost	1,301	3,062
- At market value	510	486
	<u>1,811</u>	<u>3,548</u>
Market value	<u>6,797</u>	<u>6,402</u>

14. INVENTORIES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
At cost:				
Raw materials	7,879	13,586	-	-
Consumables	709	687	177	174
Work-in-progress	598	141	-	-
Finished goods	2,057	940	-	-
Inventories in transit	-	67	-	-
	<u>11,243</u>	<u>15,421</u>	<u>177</u>	<u>174</u>

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Trade receivables	40,030	39,963	11,003	9,686
Deposits	552	538	503	489
Prepayments	1,480	748	1,000	140
Sundry receivables	1,161	424	704	193
Due from subsidiaries	-	-	6,424	24,740
Due from a related party	28	187	11	16
	<u>43,251</u>	<u>41,860</u>	<u>19,645</u>	<u>35,264</u>

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15. TRADE AND OTHER RECEIVABLES (CONTD.)

The Group's normal trade credit term ranges from 30 days to 95 days (2006: 30 days to 95 days).

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

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

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

16. CASH AND BANK BALANCES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Deposits with licensed banks	75,922	49,544	48,514	26,958
Cash and bank balances	13,626	4,718	8,325	2,193
	89,548	54,262	56,839	29,151

Fixed deposits of the Group amounting to RM32,500 (2006: RM32,000) were pledged to a bank as security for credit facilities granted to the Group.

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

	Group		Company	
	2007	2006	2007	2006
Average maturities of deposit at the financial year	24 days	24 days	30 days	30 days
Weighted average effective interest rates	3.22%	2.80%	2.98%	2.71%

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17. TRADE AND OTHER PAYABLES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Trade payables	4,200	10,283	33	58
Due to a related party, trade	204	-	173	133
Accrued operating expenses	4,840	3,770	2,288	1,734
Accrual for Directors' fees	1,208	1,138	198	198
Sundry payables	15,710	11,576	4,976	4,013
Balance due for acquisitions				
of property, plant and equipment	248	10,051	232	110
Due to related parties, non-trade	857	1,011	268	333
	27,267	37,829	8,168	6,579

The normal trade credit terms granted to the Group range from 30 days to 60 days (2006: 30 days to 60 days).

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

18. LOANS AND BORROWINGS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Short term				
Secured:				
Hire purchase (Note 19)	1,681	1,159	175	355
Term loans	16,018	15,804	809	753
Unsecured:				
Revolving credits	-	1,500	-	-
	17,699	18,463	984	1,108

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18. LOANS AND BORROWINGS (CONTD.)

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Long term				
Secured:				
Hire purchase (Note 19)	2,394	183	98	128
Term loans	12,897	11,110	458	1,267
Unsecured:				
Other loan	1,374	1,374	-	-
	16,665	12,667	556	1,395
Total borrowings				
Hire purchase (Note 19)	4,075	1,342	273	483
Term loans	28,915	26,914	1,267	2,020
Revolving credits	-	1,500	-	-
Other loan	1,374	1,374	-	-
	34,364	31,130	1,540	2,503

The secured term loans are secured by way of:

- (i) first party pledge over the Group's and Company's property, plant and equipment with aggregate net book values of RM31,177,000 (2006: RM29,996,000) and RM1,734,000 (2006: RM2,328,000), respectively, as referred to in Note 11;
- (ii) negative pledge; and
- (iii) corporate guarantee provided by the Company.

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

Other loan represents an unsecured loan obtained from a minority shareholder of a subsidiary company who is also a corporate shareholder of the Company. This loan bore interest at commercial rates during the financial year and is not expected to be repaid in the next 12 months.

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19. HIRE PURCHASE PAYABLES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Within one year	1,854	1,288	192	397
After one year and not later than five years	2,652	204	106	143
	4,506	1,492	298	540
Future finance charges	(431)	(150)	(25)	(57)
Present value of hire purchase liabilities	4,075	1,342	273	483
Present value of hire purchase liabilities:				
Within one year	1,681	1,159	175	355
After one year and not later than 5 years	2,394	183	98	128
	4,075	1,342	273	483

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

20. SHARE CAPITAL

	Group/Company		Group/Company	
	2007 Number ('000)	2006 Number ('000)	2007 RM'000	2006 RM'000
Authorised:				
Ordinary shares of RM1 each				
As at 1 August/31 July	50,000	50,000	50,000	50,000
Issued and fully paid:				
Ordinary shares of RM1 each				
As at 1 August/31 July	43,001	43,001	43,001	43,001

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21. RESERVES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Distributable:				
Retained profits	102,191	82,620	42,483	31,640
Non-distributable:				
Share premium	649	649	649	649
Asset revaluation reserve	7,433	7,433	2,124	2,124
Negative goodwill	-	430	-	-
Merger relief reserve	-	-	1,215	1,215
	110,273	91,132	46,471	35,628

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

As at balance sheet date, the Company has sufficient tax exempt account balance to distribute tax exempt dividends of approximately RM7,537,000 (2006: RM8,752,000). Based on estimated tax credit available under Section 108 of the Income Tax Act 1967 as at balance sheet date, the Company is able to frank payments of dividends amounting to RM20,799,000 (2006: RM16,747,000). Distribution of dividends in excess of these amounts would be subjected to tax at the prevailing statutory tax rate.

22. DEFERRED TAXATION

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
At the beginning of financial year	14,914	12,654	10,552	9,091
Recognised in the income statement (Note 8)	(310)	2,260	(1,861)	1,461
At the end of financial year	14,604	14,914	8,691	10,552
Presented after appropriate offsetting as follows:				
Deferred tax liabilities	14,604	14,914	8,691	10,552

Notes to the Financial Statements

- 31 July 2007

22. DEFERRED TAXATION (CONTD.)

Deferred Tax Liabilities of the Group

	Property, plant and equipment	Revaluation surplus	Others	Total
	RM'000	RM'000	RM'000	RM'000
At 1 August 2005	615	3,489	13,286	17,390
Recognised in the income statement	(615)	(177)	3,246	2,454
At 31 July 2006	-	3,312	16,532	19,844
Recognised in the income statement	38	(268)	418	188
At 31 July 2007	38	3,044	16,950	20,032

Deferred Tax Assets of the Group

	Property, plant and equipment	Others	Total
	RM'000	RM'000	RM'000
At 1 August 2005	(3,061)	(1,675)	(4,736)
Recognised in the income statement	(947)	753	(194)
At 31 July 2006	(4,008)	(922)	(4,930)
Recognised in the income statement	(137)	(361)	(498)
At 31 July 2007	(4,145)	(1,283)	(5,428)

Deferred Tax Liabilities of the Company

	Property, plant and equipment	Revaluation surplus	Others	Total
	RM'000	RM'000	RM'000	RM'000
At 1 August 2005	42	1,763	11,044	12,849
Recognised in the income statement	(27)	(92)	1,047	928
At 31 July 2006	15	1,671	12,091	13,777
Recognised in the income statement	12	(90)	(1,971)	(2,049)
At 31 July 2007	27	1,581	10,120	11,728

Notes to the Financial Statements

- 31 July 2007

22. DEFERRED TAXATION (CONTD.)

Deferred Tax Assets of the Company

	Property, plant and equipment	Others	Total
	RM'000	RM'000	RM'000
At 1 August 2005	(2,891)	(867)	(3,758)
Recognised in the income statement	223	310	533
At 31 July 2006	(2,668)	(557)	(3,225)
Recognised in the income statement	284	(96)	188
At 31 July 2007	(2,384)	(653)	(3,037)

23. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 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	3,894	2,632	1,327	1,207
Interest on loan from Sunright Limited	117	117	-	-
Sale of property, plant and equipment to:				
- KES Systems, Inc.	114	7	-	-
- KEST Systems Et Service Ltd	-	275	-	-
Purchases from:				
- KES Systems Et Service (1993) Pte Ltd	1,374	323	1,334	230
- Kestronics (M) Sdn Bhd	84	145	19	27

	Company	
	2007 RM'000	2006 RM'000

Transactions with subsidiary companies

Rent of factory to subsidiary company	611	325
Purchase of property, plant and equipment from subsidiary company	38	123
Interest on loan and advances to subsidiary company	737	340

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.

Notes to the Financial Statements

- 31 July 2007

24. CONTINGENT LIABILITIES

	Company	
	2007 RM'000	2006 RM'000
Unsecured:		
Guarantees granted to licensed banks and financial institutions in respect of credit facilities extended to subsidiary companies	22,655	31,854

25. CAPITAL COMMITMENTS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Authorised and contracted for	103	1,928	92	1,738
Authorised but not contracted for	84	410	-	-

26. SEGMENT INFORMATION

Segment information is not presented as the Group operates primarily in the electronic industry in Malaysia. The subsidiary in China is currently still dormant.

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

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

(b) Interest Rate Risk

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

Surplus funds are placed with reputable licensed banks.

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

Notes to the Financial Statements

- 31 July 2007

27. FINANCIAL INSTRUMENTS (CONTD.)

(c) Foreign Exchange Risk

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

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

	2007 RM'000	2006 RM'000
Net Financial Liabilities		
Non-functional Currencies:		
Singapore Dollars	(1,186)	(1,209)
United States Dollars	9,043	(4,842)
Japanese Yen	-	(5)
Euro Dollars	-	(281)
	7,857	(6,337)

(d) Credit Risk

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

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

(e) Liquidity Risk

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

(f) Fair Values

(i) Methods and Assumptions

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

Borrowings

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

Notes to the Financial Statements

- 31 July 2007

27. FINANCIAL INSTRUMENTS (CONTD.)

(f) Fair Values (Contd.)

(i) Methods and Assumptions (Contd.)

Other Investments

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

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.

(ii) Recognised Financial Instruments

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

	Group		Company	
	Carrying Amount RM'000	Fair Value RM'000	Carrying Amount RM'000	Fair Value RM'000
Financial Liabilities				
At 31 July 2007:				
Hire purchase payables	4,075	4,855	273	296
Secured term loan	28,915	26,372	1,267	1,223
At 31 July 2006:				
Hire purchase payables	1,342	1,422	483	567
Secured term loan	26,914	24,444	2,020	1,956

28. SIGNIFICANT EVENT DURING THE YEAR

(a) Incorporation of a wholly owned subsidiary, KESM Industries (Tianjin) Co., Ltd.

On 29 June 2007, the Company incorporated a new wholly-owned subsidiary, KESM Industries (Tianjin) Co., Ltd in the province of Tianjin, China with a registered capital of USD5 million. The intended principal activities are the manufacturing of electronic equipment and the provision of semiconductor burn-in, testing and related services.

Shareholders' Information

As at 1 October 2007

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	:	RM50,000,000.00
Issued and paid-up capital	:	RM43,000,500.00
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	%
2	Less than 100	100	0.00
238	100 to 1,000 shares	213,900	0.50
861	1,001 to 10,000 shares	3,452,300	8.03
155	10,001 to 100,000 shares	4,445,900	10.34
14	100,001 to less than 5% of issued shares	7,084,600	16.47
2	5% and above of issued shares	27,803,700	64.66
1,272	Total	43,000,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.43
2. Samuel Lim Syn Soo	20,825,000*	48.43
3. Lembaga Tabung Haji	6,978,700	16.23

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

Shareholders' Information

As at 1 October 2007

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

Name of Director	Number of Shares Held			
	Direct	%	Deemed Interest	%
1. Samuel Lim Syn Soo	-	-	20,825,000*	48.43
2. Kenneth Tan Teoh Khoon	-	-	-	-
3. Lim Mee Ing	-	-	-	-
4. Dato' Dr. Norraesah Haji Mohamad	7,500	-	-	-
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.

SHARES IN RELATED CORPORATION

The interest of Director in related companies remains the same as disclosed in the Directors' Report for the year ended 31 July 2007.

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 RM1.00 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 1 October 2007

THIRTY LARGEST SHAREHOLDERS

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.43
2. Lembaga Tabung Haji	6,978,700	16.23
3. Wong Tee Kim @ Wong Tee Fatt	2,150,000	4.99
4. Tan Teong Siew	2,057,500	4.78
5. Mayban Securities Nominees (Asing) Sdn Bhd OCBC Securities Private Limited for Tecity Management Pte Ltd	602,000	1.40
6. Tan Kim Hin	405,000	0.94
7. Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Goh Chuan Seng	252,500	0.59
8. Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Heng Peng Heng	220,500	0.51
9. Tan Jin Tuan	216,000	0.50
10. Soon Hoe Chuan	210,200	0.49
11. Chau Tai Chuon	210,200	0.49
12. CIMSEC Nominees (Asing) Sdn Bhd Exempt An for CIMB-GK Securities Pte Ltd	192,000	0.45
13. RHB Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Wee Hoong	190,000	0.44
14. Inter-Pacific Equity Nominees (Tempatan) Sdn Bhd Kim Eng Securities Pte Ltd for Goh Seng Kee	142,700	0.33
15. Wong Yoke Fong @ Wong Nyok Fing	135,000	0.31
16. Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Hng Khuim Chew @ Heng Khuim Chew	101,000	0.23
17. Citigroup Nominees (Asing) Sdn Bhd UBS AG Singapore for Jarmata Profits Limited	100,000	0.23
18. Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim Kian Yap	98,500	0.23
19. Ke-Zan Nominees (Asing) Sdn Bhd Kim Eng Securities Pte Ltd for Horizon Growth Fund N.V.	95,800	0.22
20. Lim Siew Geok	95,000	0.22
21. Sushil Kaur a/p Sudar Shan Singh	85,100	0.20
22. Soong and Saw Investment Trust Sdn Berhad	85,000	0.20
23. Citigroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Susy Ding	79,800	0.19
24. HLG Nominee (Tempatan) Sdn Bhd Pledged securities account for Leong Wai Hong	77,100	0.18
25. Chan Tuck Sheong	71,900	0.17
26. Capital Dynamics Asset Management Sdn Bhd	70,000	0.16
27. Lai Chin Loy	61,500	0.14
28. TA Nominees (Tempatan) Sdn Bhd Pledged securities account for Kuay Ah Geok	59,500	0.14
29. Ter Kham Ee	55,000	0.13
30. Wooi Kong Yau	55,000	0.13
Total	35,977,500	83.67

Group Properties

As at 31 July 2007

Location	Description / Existing use	Date of Last Revaluation	Tenure	Approximate Land Area / Built-up Area (sq m)	Approximate Age Of Building (Years)	Net Book Value (RM'000)
KESM Industries Berhad						
Lot 4, Kawasan MIEL Phase 1 Sungei Way Free Industrial Zone Jalan SS8/4 Selangor Darul Ehsan	Industrial land/ Factory and Office premises	10 Jun 2004	No individual qualified title has been issued yet Note (a)	5,064 / Phase I – 2,315 Phase II – 3,169 Phase III – 3,345	Phase I – 11 Phase II – <9 Phase III – <10	3,360 / Phase I – 2,145 Phase II – 2,829 Phase III – 3,572
Factory Lot Nos. A5 and A6 Kawasan MIEL Batang Kali Phase II Selangor Darul Ehsan	Industrial land/ Factory and Office premises	17 Jun 2004	Leasehold for 60 years expiring on 13 Oct 2052	2,753 / 879	15	297 / 386
KESP Sdn. Bhd.						
Plot 253 Jalan Kampong Jawa Bayan Lepas Free Industrial Zone (Phase 3) Penang	Industrial land/ Factory and Office premises	22 Jun 2004	Leasehold for 60 years expiring on 7 Aug 2045	8,085 / 11,617	Phase I – 15 Phase II – 11 Phase III – 8	2,507 / 8,240
42-17-19 Desa Green Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	18	86
42-15-12A Desa Green Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	18	86
15-4-7 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	15	86
15-7-4 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	15	86
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	14	90
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	14	96
33-11-21 Taman Pekaka Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	11	86
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	14	93
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	22 Jun 2004	Freehold	65.03	14	98

Note: -

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Thirty-Sixth Annual General Meeting of the Company will 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, 8 January 2008 at 10.30 a.m. for the following purposes: -

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 July 2007 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 2007. Resolution 2
3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2007. Resolution 3
4. To re-elect the following Directors retiring pursuant to Article 80 of the Company's Articles of Association and being eligible, offer themselves for re-election:-
 - (a) Encik Ahmad Riza Bin Basir Resolution 4
 - (b) Ms Lim Mee Ing Resolution 5
 - (c) Dato' Dr. Norraesah Haji Mohamad Resolution 6
5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. Resolution 7
6. As Special Business: -
To consider and if thought fit, pass the following Resolutions as Ordinary Resolutions and Special Resolution:-
 - (a) **ORDINARY RESOLUTION NO. 1**
Authority to issue shares by Company pursuant to Section 132D of the Companies Act, 1965

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

Resolution 8

Notice of Annual General Meeting

(b) **ORDINARY RESOLUTION NO. 2**

Authority to allot shares pursuant to the Employees Share Option Scheme

"THAT subject always to the approval of the relevant authorities, authority be and is hereby given to the Directors to issue shares in the capital of the Company at any time upon such terms and conditions and for such purposes as the Directors, may, in their discretion, deem fit including but not limited to such shares as may be issued pursuant to the exercise of the options under the Employees Share Option Scheme as approved by an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 21 November 2005 provided that the aggregate number of shares to be issued pursuant to this resolution does not exceed 15% of the issued share capital of the Company for the time being."

Resolution 9

(c) **SPECIAL RESOLUTION**

Proposed Amendments to the Articles of Association

"THAT the proposed alterations, modifications, amendments or deletions to the Articles of Association of the Company as contained in Appendix A be hereby approved."

Resolution 10

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)

Company Secretary

Petaling Jaya
30 October 2007

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

EXPLANATORY NOTES ON SPECIAL BUSINESS:-

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

The proposed Resolution No. 8 will give powers to the Directors to issue up to a maximum ten per centum (10%) of the issued share capital of the Company for the time being for such purposes as the Directors would consider in the interest of the Company.

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

(b) Resolution pursuant to the Employees Share Option Scheme

The proposed Resolution No. 9 authorises the Directors to issue shares in the Company upon the exercise of the options under the Employees Share Option Scheme up to an aggregate amount not exceeding 15% of the issued share capital of the Company for the time being.

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

(c) Resolution pursuant to the Proposed Amendments to Articles of Association

This Resolution is to amend the Company's Articles of Association in line with the Listing Requirements of Bursa Malaysia Securities Berhad.

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 2007, if approved at the forthcoming Annual General Meeting, will be paid on 5 February 2008 to Depositors registered in the Record of Depositors on 21 January 2008. 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 21 January 2008, in respect of ordinary transfers; and
- b) Shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

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

Petaling Jaya
30 October 2007

Proposed Amendments to the Articles of Association

Article No.	Existing Provision	New Provision
2- Definition for "member"	Any person/persons for the time being holding shares in the Company and whose names appear in the Register of Members (except the Malaysian Central Depository Nominees Sdn Bhd) including depositors whose names appear on the Record of Depositors.	Any person/persons for the time being holding shares in the Company and whose names appear in the Register of Members (except Bursa Malaysia Depository Nominees Sdn Bhd) including depositors whose names appear on the Record of Depositors.
2 – Definition for "Approved Market Place"	A stock Exchange which is specified to be an approved market place in the Securities Industry (Central Depositories) (Exemption) (No.2) Order 1998	Deleted.
6(a)	Subject to the Act, any preference shares may with the sanction of an Ordinary Resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed <u>but the total nominal value of the issued preference shares shall not exceed the total nominal value of the issued ordinary shares at any time</u> and the Company shall not issue preference shares ranking in priority above preference shares already issued, but may issue preference shares ranking equally therewith.	Subject to the Act, any preference shares may with the sanction of an Ordinary Resolution, be issued on the terms that they are, or at the option of the Company are liable, to be redeemed and the Company shall not issue preference shares ranking in priority above preference shares already issued, but may issue preference shares ranking equally therewith.
6(c)	<u>The holder of the preference share must be entitled to a return of capital in preference to holders of ordinary shares when the Company is wound up.</u>	Deleted.

Appendix A

Proposed Amendments to the Articles of Association

Article No.	Existing Provision	New Provision
14	<p>Subject to the provisions of the Act, the Central Depositories Act and the Rules, the Company shall allot and/or issue securities, despatch notices of allotments to the successful allottees and make an application for the quotation of such securities:</p> <p>(a) <u>within fifteen (15) market days of the final applications closing date for an issue of securities or such other period as may be prescribed by the Stock Exchange for issues of securities to the public or a rights issue;</u></p> <p>(b) <u>within ten (10) market days of the books closing date for a bonus issue or such other period as may be prescribed by the Stock Exchange;</u></p> <p>(c) <u>within ten (10) market days of the date of receipt of a notice of the exercise of an employee share option together with the requisite payment or such other period as may be prescribed by the Stock Exchange;</u></p> <p>(d) <u>within ten (10) market days of the receipt of a subscription form together with the requisite payment in respect of exercise of warrants or other convertible securities or such other period as may be prescribed by the Stock Exchange.</u></p>	<p>Subject to the provisions of the Act, the Central Depositories Act and the Rules, the Company shall allot and/or issue securities, despatch notices of allotments to the successful allottees and make an application for the quotation of such securities based on the period as prescribed by the Stock Exchange.</p>

Proposed Amendments to the Articles of Association

Article No.	Existing Provision	New Provision
33A(1)	<p>Where (if applicable):-</p> <p>(a) the shares of the Company are listed on an Approved Market Place; and</p> <p>(b) The Company is exempted from compliance with Section 14 of the Central Depositories Act under the Rules of the Central Depository in respect of such shares</p> <p>the Company shall, upon request of a shareholder, permit a transmission of securities held by such shareholder from the register of holders maintained by the registrar of the Company in the jurisdiction of the <u>Approved Market Place (hereinafter referred to as 'Foreign Register')</u>, to the register of holders maintained by the registrar of the Company in Malaysia (<u>hereinafter referred to as "the Malaysian Register"</u>) subject to the following conditions:-</p> <p>(i) there shall be no change in the ownership of such shares; and</p> <p>(ii) <u>the transmission shall be executed by causing such shares to be credited directly into the Securities Account of such shareholder.</u></p> <p><u>Where (1)(a) and (1)(b) are fulfilled, the Company shall not allow any transmission of shares from the Malaysian Register into the Foreign Register.</u></p>	<p>Where (if applicable):-</p> <p>(a) the shares of the Company are listed on another stock exchange; and</p> <p>(b) The Company is exempted from compliance with Section 14 of the Securities Industry (Central Depositories) Act 1991 or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act 1998, as the case may be, under the Rules of the Central Depository in respect of such shares</p> <p>the Company shall, upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the registrar of the Company in Malaysia and vice versa provided that there shall be no change in the ownership of such securities.</p>

Appendix A

Proposed Amendments to the Articles of Association

Article No.	Existing Provision	New Provision
57(a)	<p>Every notice convening meetings shall specify the place, the day and the hour of the meeting and shall be given to all members at least fourteen (14) clear days before the meeting or at least twenty one (21) clear days before the meeting where any special resolution is to be proposed or where it is an annual general meeting. Any notice of a meeting called to consider special business shall specify the general nature of such business and shall also be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business and shall be given in the manner hereinafter mentioned to such persons as are under the provisions of these Articles entitled to receive notice of general meetings from the Company. At least fourteen (14) clear days' notice or twenty one (21) clear days' notice, in the case where any special resolution is proposed or where it is an annual general meeting, of every such meeting shall also be given by advertisement in <u>a daily newspaper circulating in Malaysia</u> and in writing to the Exchange and other stock exchange, if any, upon which the company is listed provided that the accidental omission to give notice to or the non-receipt of a notice by any person entitled thereto shall not invalidate the proceedings at any general meetings.</p>	<p>Every notice convening meetings shall specify the place, the day and the hour of the meeting and shall be given to all members at least fourteen (14) clear days before the meeting or at least twenty one (21) clear days before the meeting where any special resolution is to be proposed or where it is an annual general meeting. Any notice of a meeting called to consider special business shall specify the general nature of such business and shall also be accompanied by a statement regarding the effect of any proposed resolution in respect of such special business and shall be given in the manner hereinafter mentioned to such persons as are under the provisions of these Articles entitled to receive notice of general meetings from the Company. At least fourteen (14) clear days' notice or twenty one (21) clear days' notice, in the case where any special resolution is proposed or where it is an annual general meeting, of every such meeting shall also be given by advertisement in at least 1 nationally circulated Bahasa Malaysia or English daily newspaper and in writing to the Exchange and other stock exchange, if any, upon which the company is listed provided that the accidental omission to give notice to or the non-receipt of a notice by any person entitled thereto shall not invalidate the proceedings at any general meetings.</p>
57(c)	<p>The Company shall request the Central Depository in accordance with the Rules to issue a Record of Depositors as at a date not less than three (3) market days before the general meeting (hereinafter referred to as "the General Meeting Record of Depositors").</p>	<p>The Company shall also request the Central Depository in accordance with the Rules to issue a Record of Depositors as at the latest date which is reasonably practicable which shall in any event be not less than three (3) market days before the general meeting (hereinafter referred to as "the General Meeting Record of Depositors").</p>

Proposed Amendments to the Articles of Association

Article No.	Existing Provision	New Provision
91	<p>The office of director shall become vacant if the director:</p> <p>(a) has a Receiving Order in Bankruptcy made against him or makes any arrangement or composition with his creditors generally;</p> <p>(d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder;</p>	<p>The office of Director shall become vacant if the director:</p> <p>(a) has a Receiving Order in Bankruptcy made against him or makes any arrangement or composition with his creditors generally during his term of office;</p> <p>(d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under the law relating to mental disorder during his term of office;</p>
114	<p>The Directors may from time to time appoint any one or more of their body to be Managing Director (who shall also be known as Chief Executive Officer) and if the appointment is for a fixed term, that term shall not exceed three (3) years, and upon such conditions as they think fit, and may vest in such Managing Director the powers hereby vested in the Directors generally as they may think fit and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of those powers. The Managing Director shall be subject to the contract of the Board but it may be a term of his appointment that he shall receive pension, gratuity or other benefits upon his retirement.</p>	<p>The Directors may from time to time appoint any one or more of their body to be Managing Director (who shall also be known as Chief Executive Officer) and if the appointment is for a fixed term, that term shall not exceed three (3) years, and upon such conditions as they think fit, and may vest in such Managing Director the powers hereby vested in the Directors generally as they may think fit and either collaterally with or to the exclusion of their own powers, and may from time to time revoke, withdraw, alter or vary all or any of those powers. The Managing Director shall be subject to the contract of the Board but it may be a term of his appointment that he shall receive pension, gratuity or other benefits upon his retirement. A Managing Director shall be subject to the control of the Board of Directors.</p>

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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 No.	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/ Passport No.	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-Sixth 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 Thursday, 8 January 2008 at 10.30 a.m. and at any adjournment thereof.

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

No.	Resolutions	For*	Against*
1.	Receive Audited Financial Statements, Directors' Report and Report of the Auditors		
2.	Approval of first and final dividend		
3.	Approval of Directors' fees		
4.	Re-election of Encik Ahmad Riza Bin Yet as Director		
5.	Re-election of Ms Lim Mee Ing as Director		
6.	Re-election of Dato' Dr. Norraesah Haji Mohamad as Director		
7.	Re-appointment of Auditors		
8.	Approval to issue shares pursuant to Section 132D of the Companies Act, 1965		
9.	Approval to allot shares pursuant to Employees Share Option Scheme		
10.	Approval of proposed amendments to the Articles of Association		

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

Signed this _____ day of _____ 2007 / 2008

Total Number of Shares Held

Signature/Common Seal of Shareholder(s)

NOTES: -

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

Fold here

Affix
postage
here

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

Fold here

KESM INDUSTRIES BERHAD
(13022-A)

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

Tel: (603) 787-40000
Fax: (603) 787-58558
