ANNUAL REPORT 2012

KESM INDUSTRIES BERHAD (13022-A)

A Member of

SUNRIGHT

Cool laptops, smartphones and stylish cars have one thing in common - they all use cutting edge semiconductor chips to achieve higher performance, provide more features and are smaller in size. These new opportunities bring growth for us. KESM ensures the reliability and functionality of many of these new chips that are designed and manufactured by our global customers.

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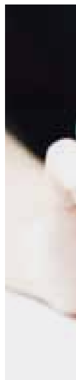


Chairman's Statement

Dear fellow shareholders

Our consistently strong financial performances over the past years were hindered at the start of the financial year. The much anticipated production ramp up in China was lower than our planned extended capacity. We held on to the cost of shoring up infrastructure for the extended capacity. The escalating cost of labor in China has also added to the challenge. In a separate set of circumstances, we had to make an impairment of trade receivables amounting to RM7.0 million as the year ended. These developments caused a weaker financial result for FY 2012. Notwithstanding these factors, our healthy financials enabled us to absorb such unpredictable losses.

Nevertheless, the Group achieved a profit after tax of RM7.4 million based on revenue of RM237 million, which slided from RM248 million last year. We increased cash and cash equivalents to RM113.8 million from RM100.5 million, a year ago.

Chip Innovations Driving Growth Applications

In FY 2012, we initiated the process for burn-in of 30 percent more new chips. This is equivalent to 1 new chip design every week that goes into personal computers, cars or smartphones. The introduction of each chip required extensive engineering efforts in our processing to ensure reliability.

We gained 3 new customers in one year. This is record breaking, as the normal gestation period for a new account may take 12 to 18 months for certification and approval. Our brand name and established reputation have preceded us. They trust our process expertise, high quality standards and our assured quick responses. We then enable them to deliver their products quickly and on time to market their new devices.

New Applications Driving Market Demand

We work with world-class technology leaders, who provide semiconductor chips to high growth markets for cars, personal computers, and smartphones. They bring high growth opportunities and varied applications to KESM. Cars are increasingly becoming more efficient, smarter and safer. Smartphones with video, voice, data and numerous new features are helping us stay connected. Traffic crossing on the internet requires higher performance from personal computers and servers. As millions of people join the online community, they are expecting better and lighter media tablets and smartphones.

There is one thing in common with these new applications. They require new chips with more features and at lower costs. These cutting edge electronic devices require advanced burn-in and test systems and we will continue to invest to ensure that when their volumes expand, we will benefit as well.

1 new chip every week

34 years leading in burn-in and test services

World-Class Quality Standard
We have already achieved world-class quality certification for TS 16949, QS 9000, ISO 14001 as well as Defense Supply Center Columbus "DSCC". These certifications, qualify us to process a wide range of applications for communications, networking, automotive and even military devices.

Quality service is not a one-time event. Our customers are world-class leaders and they deserve world-class continuing service support.

We send our employees back to class to update their technical skills and knowledge. We have cultivated a mind set to "do things right the first time". This relentless pursuit of "total customer satisfaction" in everything we do has proven to be successful. We made substantial yield savings for our customers and we gained their confidence for repeat orders.

Positioning To Win
We are in an interesting business. Every week, we see exciting customers bringing their innovations to KESM. Our management has been inspired by their new developments and we share their enthusiasm and commitment in responding to their requirements.

Our Electronics Manufacturing Services which encompasses system integration services, experienced healthy business volumes. Our efforts to intensify our activities in LED lighting have gained record sales from one of our major customers. Again, our quality excellence will continue to ensure steady growth.

The semiconductor industry is continuing to grow. We have the right business model, an effective strategy, strong business partnerships with market leaders, a dedicated team of employees and a talented group of management with strong leadership towards executing our vision for tomorrow. We are well positioned to win.

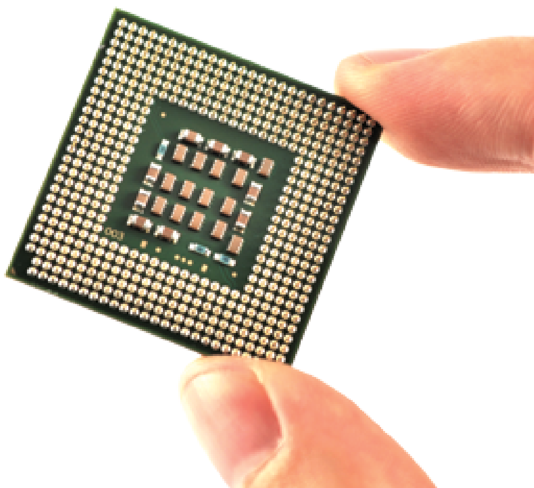
Focused Strategy
Moving forward, we want to capitalize on the strong market positioning we have created to ensure our continuing leadership position. Our goals and strategies remain consistent.

- Expanding "Test Advantages" by continuing our investments in Burn-in and Test to process new cutting edge chips
- Building our quality culture by creating process innovations in our Services to maintain a high quality standard with the increasing volumes and complexities of devices

Dividend
The Board has recommended a final dividend of 3 sen per share for FY 2012. This proposed final dividend if approved at the Company's Annual General Meeting, will be paid on 6 February 2013.

Appreciation
In closing, we take this opportunity to thank our employees for continuing to share best practices and delivery of excellent service support for our valued customers. KESM's employees are working hard to stay ahead of competition as we create long term value for all our stakeholders.

SAMUEL LIM SYN SOO
Executive Chairman & Chief Executive Officer
11 October 2012



MR SAMUEL LIM SYN SOO
Aged 58, 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. Mr. Lim co-founded and led the Company to become Malaysia's largest independent provider of burn-in and testing services.

Mr. Lim holds a Diploma in Industrial Engineering (Canada) and has more than 40 years of experience in the semiconductor and electronics industry. Prior to the establishing of KESM Industries Berhad, Mr. Lim held senior positions including engineering, manufacturing and marketing in U.S. multinational companies. As one of the local pioneers in the semiconductor industry, Mr. Lim received 4 U.S. patents in recognition of his inventions in various solutions involving "Burn-in and test". He also sits on the Board of all the companies in Sunright Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited.

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

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

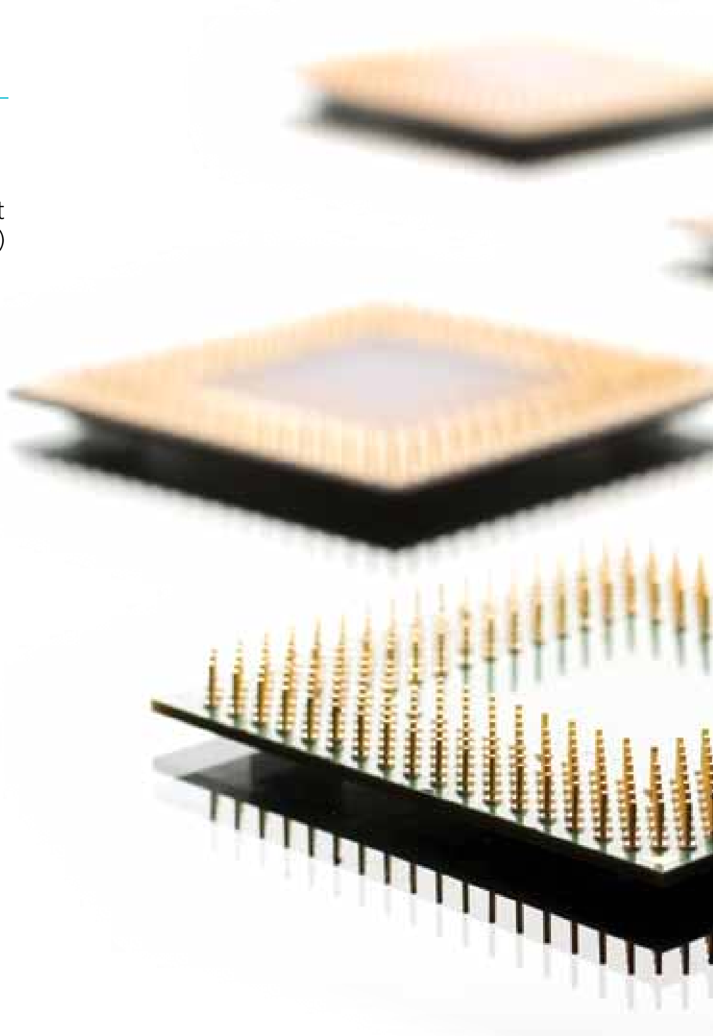
MR KENNETH TAN TEOH KHOON
Aged 55, Singaporean
Non-Independent Executive Director

Mr. Tan was appointed to the Board on 20 January 1992. He is responsible for the Group's strategic direction, new business initiatives, investor relations and overseeing the financial management of the Group.

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

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

Mr Tan holds a Bachelor of Accountancy degree from the National University of Singapore and is a Fellow of the Institute of Certified Public Accountants of Singapore.



Board of Directors

MS LIM MEE ING
Aged 61, Singaporean
Non-Independent Non-Executive Director

Ms. Lim was appointed to the Board on 19 February 1990. She holds a Diploma from the Institute of Bankers, and has more than 18 years of working experience in the banking profession before her retirement in 1990. From 1973 to 1990, she worked with the Singapore Branch of Barclays Bank PLC in various senior positions. Prior to her exit, she was responsible for marketing the global securities and custodian services of the bank. Ms. Lim was also a director of Barclays Bank (S) Nominees Pte Ltd from September 1982 to March 1990. She was a member of the Committee on Securities Industry of the Association of Banks in Singapore from September 1987 to March 1990.

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

DATO' DR. NORRAESAH HAJI MOHAMAD
Age 64, 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 39 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, SBC Corporation Berhad, icapital.biz Berhad and Utusan Melayu (Malaysia) Berhad, all listed on Bursa Malaysia Securities Berhad, and several other private limited companies in Malaysia.

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

	Direct Holdings	Indirect Holdings
Ordinary Shares of RM1.00 each	7,500	Nil

Board of Directors

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN
Aged 57, Malaysian
Independent Non-Executive Director

Tuan Haji Zakariah was appointed to the Board on 27 January 1995 as a representative of the former substantial shareholder, Lembaga Tabung Haji ("LTH"). He ceased to be their representative on his retirement from LTH on 1 July 2011. On 8 March 2011, he was re-designated as Independent Non-Executive Director and appointed a member of the Audit Committee.

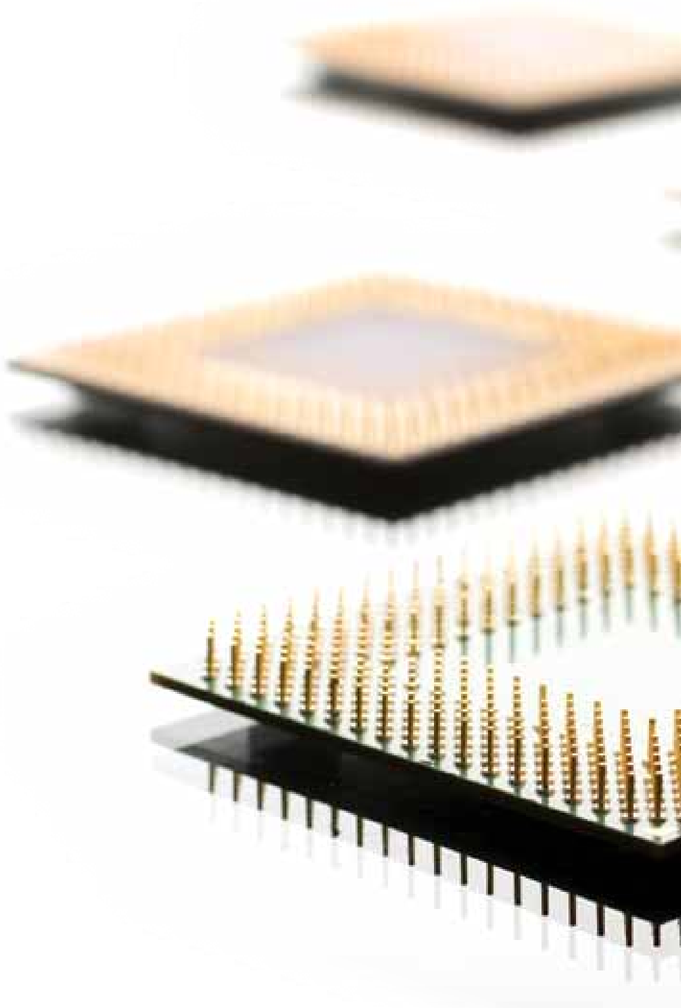
Tuan Haji Zakariah joined LTH in 1979, serving in several departments, including Finance, Administration, Investment, Branch Office operation, Human Resource Management and Hajj Management.

In addition, he has wide experience in the private sector, holding important positions in two subsidiaries of LTH. Among others, he was appointed 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. His last position before his retirement was as the Chief Executive Officer of TH Global and Services Sdn Bhd.

He has a Master of Science in Engineering Business Management from Warwick University, United Kingdom.

MR YONG CHEE HOU
Aged 56, 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 also sits on the Boards of several private limited companies in Malaysia.



Other Information on Directors

1. FAMILY RELATIONSHIP

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

2. CONFLICT OF INTEREST

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

3. CONVICTIONS OF OFFENCES

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

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2012

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

Tuan Haji Zakariah Bin Yet
Independent Non-Executive Director

Mr. Yong Chee Hou
Independent Non-Executive Director

AUDIT COMMITTEE

Dato' Dr. Norraesah Haji Mohamad
Chairman

Mr. Yong Chee Hou
Member

Tuan Haji Zakariah Bin Yet
Member

COMPANY SECRETARY

Ms. Leong Oi Wah (MAICSA 7023802)

REGISTERED OFFICE

802, 8th Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel: 03-7803 1126
Fax: 03-7806 1387

SHARE REGISTRAR

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

AUDITORS

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

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Market

STOCK NAME

KESM

BURSA SECURITIES STOCK NO.

9334

WEBSITE

www.kesmi.com

Other Information

During the financial year under review,

1. UTILISATION OF PROCEEDS RAISED FROM ANY CORPORATE PROPOSAL

there were no proceeds raised from corporate proposal.

2. SHARE BUYBACKS

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

3. OPTIONS OR CONVERTIBLE SECURITIES

the Company did not have an option scheme in place and did not issue any convertible securities.

4. SPONSORED DEPOSITORY RECEIPT PROGRAMME

the Company did not sponsor any depository receipt programme.

5. 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.

6. NON-AUDIT FEES

the amount of non-audit fees incurred for services rendered to the Group and the Company by the External Auditors is disclosed in Notes 8 of the audited financial statements included in this Annual Report.

7. 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.

8. PROFIT GUARANTEES

there were no profit guarantees received by the Company.

9. MATERIAL CONTRACTS

there were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests, either still subsisting at the end of the financial year ended 31 July 2012 or entered into since the end of the previous financial year.

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 2012 ("FY 2012").

COMPOSITION

The Committee currently comprises the following directors: -

Chairman	: Dato' Dr. Norraesah Haji Mohamad	*Independent Non-Executive Director*
Members	: Mr. Yong Chee Hou	*Independent Non-Executive Director*
	: Tuan Haji Zakariah Bin Yet	*Independent Non-Executive Director*

KEY FUNCTIONS, ROLES AND RESPONSIBILITIES

The functions of the Committee are to assist the Board to fulfill 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 auditors' management letter and management response.

(3) to review the following:-

- (a) with the external auditors, 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 auditors, their evaluation of the system of internal controls of the Company and of the Group;
- (c) with the external auditors, their audit report, and any matter the external auditors may wish to discuss (in the absence of management where necessary);
- (d) the assistance given by the employees to the external and internal auditors;
- (e) adequacy of the scope, functions, competency and resources of the internal audit functions and that it has the necessary authority to carry out its work;
- (f) the internal audit programme, processes, results of the internal audit programme, processes or investigations undertaken and whether or not appropriate action is taken on the recommendation of the internal auditors;
- (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;
  - (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 auditors are not suitable for re-appointment;

and report the same to the Board.

(4) to consider the major findings of internal investigations and management's response.

(5) to recommend the nomination of a person or persons as external auditors.

(6) to convene a meeting of the Committee to consider any matter the external auditors believe should be brought to the attention of the directors or shareholders.

(7) to ensure that the Committee Chairman attends the Annual General Meeting to respond to any shareholder's questions on the Committee's report and activities.

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

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

(10) to make a report pursuant to paragraph 15.15 of the Listing Requirements within 3 months from the financial year end, for submission to the Board for approval to include it in the Company's Annual Report.

MEETINGS AND ATTENDANCE

The Committee met four (4) times in FY 2012. Other Board members, senior management staff and the company secretary attended the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice. The meeting attendance record of the Committee members was as follows:

Name of Members	No. of Meetings attended
Dato' Dr. Norraesah Haji Mohamad	4
Mr. Yong Chee Hou	4
Tuan Haji Zakariah Bin Yet	2

During FY 2012, the Committee met with the external auditors once, excluding the attendance of other directors and employees to discuss the audit plan for FY 2012.

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During FY 2012, the Committee: -

1. reviewed the external auditors' reports in relation to the audit for the year ended 31 July 2011.
2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2011 to be presented to the Board 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 for approval.
5. reviewed and recommended recurrent related party transactions of the Group to be presented to the Board for ratification and approval.
6. reviewed and approved the internal audit plan.
7. reviewed and discussed the internal auditors' reports.
8. reviewed the external auditors' report on the statement on internal control ("SIC") in respect of the financial year ended 31 July 2011 and presented the SIC to the Board for approval.
9. reviewed the Committee's report in respect of the financial year ended 31 July 2011 and presented to the Board of Directors for approval.
10. reviewed the competency and effectiveness of the internal auditors.
11. discussed the audit plan for FY 2012 with the external auditors.

INTERNAL AUDIT ACTIVITIES

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

The total cost incurred for the Group's internal audit function amounted to approximately RM68,000.

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

The statement below sets out how the Group has applied the Principles of the Malaysian Code of Corporate Governance (Revised 2007) ("the Code") and the extent of compliance with the Best Practices of good corporate governance as set out in Part 1 and Part 2 of the Code.

BOARD OF DIRECTORS

Board Composition and Balance

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

As at the date of this report, the Board comprises six (6) directors, four (4) of whom are non-executive. Of the non-executive directors, three (3) are independent. The profiles of each Director and other relevant information are set out in the "Board of Directors" and "Other Information on Directors" sections of this Annual Report.

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

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

Although the roles are combined, the Board is of the view that there are sufficient independent directors on the Board to ensure fair and objective deliberations at Board meetings and who are capable of exercising independent judgements.

The Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed, interested. All related party transactions involving him are dealt with in accordance with the provisions of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities"). Moreover, the Senior Independent Non-Executive Director, Dato' Dr. Norraesah Haji Mohamad, is available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman/CEO.

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

Re-election

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

Board Meetings

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

During the year under review, the Board had met on a total of five (5) occasions. The attendances of each individual director at these meetings are set out in the "Other Information on Directors" section of this Annual Report. All directors attended more than 50% of the Board meetings. Deliberations of the Board and the decisions made at the Board meetings are duly recorded by the Company Secretary.

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

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.

In financial year 2012, the Directors attended two in-house trainings on "2012 Amendments to the Listing Requirements" and "Corporate Governance Blueprint". The following directors had also attended other training programmes:

Name of Directors	Mode of Training	Title of Training	Duration of Training
Kenneth Tan Teoh Khoon	Seminar	The Premier Business Leadership Series	2 days
Michael Yong Chee Hou	Seminar	1) The Changing face of Financial Statements	2 days
		2) Malaysian Institute of Accountants Conference	2 days

SUPPLY OF INFORMATION

The Chairman ensures that all Directors have full and unrestricted access to timely information, necessary in the furtherance of their duties, whether as a full board or in their individual capacity.

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

Every director has full access to the advice and services of the company secretary. Where required and in appropriate circumstances, the directors are allow to take professional advice at the Company's expense.

DIRECTORS' NOMINATION

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

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

DIRECTORS' REMUNERATION

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

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

Disclosure on directors' remuneration can be found on Note 8 of the audited financial statements included in this Annual Report. The Code recommends detailed disclosure to be made for each director's remuneration. However, the Board is of the view that the transparency and accountability are not compromised by the band disclosure as permitted in the Listing Requirements of Bursa Securities.

AUDIT COMMITTEE

The composition and terms of reference of this Committee together with its report are set out in the "Audit Committee's Report" section of this Annual Report.

INTERNAL AUDIT FUNCTION

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

Details of the activities carried out by the internal auditors during the year under review are described in the "Audit Committee's Report" and "Statement on Internal Control" sections of this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

Directors' Responsibility for Preparing the Financial Statements

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

In preparing the financial statements, the Directors have:

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

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

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

Internal Control

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

Relationship with the Auditors

The Company has always maintains a transparent relationship with its external auditors in seeking their professional advice and ensuring compliance with the applicable approved accounting standards in Malaysia. The Audit Committee has direct and unrestricted access to the internal and external auditors. The role of the Audit Committee in relation to the auditors is described in the "Audit Committee's Report" section of this Annual Report.

RELATIONSHIP WITH SHAREHOLDERS

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

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

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

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

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

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Apart from the dual roles held by the Executive Chairman/CEO and the non-establishment of the Nomination Committee and Remuneration Committee, the Board considers that the Company has substantially complied with the Best Practices as set out in the Code for the financial year ended 31 July 2012.

This statement is made in accordance with the resolution of the Board of Directors on 20 September 2012.

INTRODUCTION

This Statement on Internal Control by the Board is made pursuant to Paragraph 15.26(b) of the Main Market 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 (Revised 2007), 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 auditors adopt 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.

REVIEW OF THIS STATEMENT

Pursuant to paragraph 15.23 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, the external auditors have reviewed this Statement for inclusion in the Annual Report for Financial Year 2012. The external auditors reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity on internal control of the Company.

CONCLUSION

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

This statement is made in accordance with the resolution of the Board of Directors dated 20 September 2012.

Financial Statements Contents

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2012.

Principal activities

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. The principal activities of its subsidiaries are the provision of semiconductor burn-in and testing services, and electronic manufacturing services.

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

Results

	Group RM'000	Company RM'000
Profit net of tax	7,383	6,627
Attributable to:		
Owners of the parent	4,161	6,627
Non-controlling interests	3,222	–
	7,383	6,627

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

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 20 January 2012, the Company paid a first and final tax exempt dividend of 3 sen (2011: 3 sen) per ordinary share amounting to RM1,290,435 (2011: RM1,290,435), as proposed by the Directors and approved by shareholders in the last annual general meeting of the Company.

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2012, of 3 sen per ordinary share amounting to RM1,290,435 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2013.

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
Tuan Haji Zakariah Bin Yet
Yong Chee Hou

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby Directors might acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

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 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, except as disclosed in Note 22 to the financial statements.

Directors' interests

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

	Number of ordinary shares of RM1.00 each			
	At 1.8.2011	Acquired	Sold	At 31.7.2012
Direct interest:				
Dato' Dr Norraesah Haji Mohamad	7,500	–	–	7,500
Deemed interest				
Samuel Lim Syn Soo	20,825,000	–	–	20,825,000

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

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

Other statutory information

(a) Before the statements of comprehensive income and statements of financial position 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 were no known bad debts and that adequate provision had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their 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 bad debts or the amount of provision for doubtful debts inadequate to any substantial extent 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.

Other statutory information (cont'd)

(c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would 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

 (i) any contingent liability in respect of the Group or of the Company which has arisen since the end of the financial year.

(f) In the opinion of the Directors:

 (i) no contingent liability or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and

 (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.

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 September 2012.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Statement by Directors

pursuant to Section 169(15) of the Companies Act, 1965

We, Samuel Lim Syn Soo and Kenneth Tan Teoh Khoon, being two of the Directors of KESM Industries Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 27 to 74 are drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2012 and of their financial performance and cash flows for the year then ended.

The information set out in Note 31 to the financial statements on page 75 have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 20 September 2012.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Statutory Declaration

pursuant to Section 169(16) of the Companies Act, 1965

I, Kenneth Tan Teoh Khoon, being the Director primarily responsible for the financial management of KESM Industries Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 27 to 75 are, to the best of my knowledge and belief, correct and I make this solemn declaration by virtue of the provisions of the Oaths and Declarations Act (Chapter 211), and subject to the penalties provided by that Act for the making of false statements in statutory declarations, conscientiously believing the statements contained in this declaration to be true in every particular.

Declared at Singapore this 27 September 2012

Kenneth Tan Teoh Khoon

Before me,

Chia Choon Yang
Notary Public

Report on the financial statements

We have audited the financial statements of KESM Industries Berhad, which comprise the statements of financial position as at 31 July 2012 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 27 to 74.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors` responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2012 and of their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

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

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

Other matters

The supplementary information set out in Note 31 to the financial statements on page 75 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

Ernst & Young
AF: 0039
Chartered Accountants

Kua Choh Leang
No. 2716/01/13 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
20 September 2012

Statements of Comprehensive Income

for the financial year ended 31 July 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Revenue	4	236,940	248,113	61,141	61,987
Other items of income					
Interest income	5	2,565	1,298	2,646	2,351
Dividend income		417	509	417	509
Other income		9,686	3,775	3,104	3,032
Items of expense					
Raw materials and consumables used		(52,383)	(66,263)	(882)	(770)
Changes in work-in-progress and finished goods		(2,665)	3,631	–	–
Employee benefits expense	6	(66,641)	(61,685)	(23,882)	(23,107)
Depreciation of property, plant and equipment	11	(56,313)	(51,972)	(12,941)	(12,737)
Impairment of property, plant and equipment	11	–	(250)	–	(250)
Finance costs	7	(3,318)	(3,256)	(2,455)	(2,424)
Other expenses		(56,307)	(51,184)	(20,446)	(22,888)
Profit before tax	8	11,981	22,716	6,702	5,703
Income tax expense	9	(4,598)	(6,037)	(75)	(673)
Profit net of tax		7,383	16,679	6,627	5,030
Other comprehensive income/(expense):					
Foreign currency translation		2,830	(1,176)	–	–
Other comprehensive income/ (expense) for the year, net of tax		2,830	(1,176)	–	–
Total comprehensive income for the year		10,213	15,503	6,627	5,030
Profit attributable to:					
Owners of the parent		4,161	12,382	6,627	5,030
Non-controlling interests		3,222	4,297	–	–
		7,383	16,679	6,627	5,030
Total comprehensive income attributable to:					
Owners of the parent		6,991	11,206	6,627	5,030
Non-controlling interests		3,222	4,297	–	–
		10,213	15,503	6,627	5,030
Earnings per share attributable to owners of the parent					
- Basic	10	9.7 sen	28.8 sen		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Financial Position
as at 31 July 2012

	Note	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Assets					
Non-current assets					
Property, plant and equipment	11	150,273	162,768	38,788	45,752
Investment in subsidiaries	12	–	–	43,533	43,533
Deferred tax assets	20	5,304	5,320	1,644	960
Other receivables	14	–	–	20,637	39,847
		155,577	168,088	104,602	130,092
Current assets					
Inventories	13	20,574	22,999	183	156
Trade and other receivables	14	65,097	67,128	40,361	38,030
Prepayments		1,772	1,203	557	422
Tax recoverable		1,064	1,106	87	537
Investment securities	15	10,631	11,315	10,631	11,315
Cash and bank balances	16	113,756	100,526	34,642	21,850
		212,894	204,277	86,461	72,310
Assets held for sale	11	421	–	421	–
		213,315	204,277	86,882	72,310
Total assets		368,892	372,365	191,484	202,402
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	17	43,015	43,015	43,015	43,015
Reserves	18	187,014	181,313	89,050	83,713
		230,029	224,328	132,065	126,728
Non-controlling interests		25,764	22,542	–	–
Total equity		255,793	246,870	132,065	126,728
Non-current liabilities					
Loans and borrowings	19	35,268	58,313	31,048	48,433
Deferred tax liabilities	20	2,714	3,296	1,208	1,174
		37,982	61,609	32,256	49,607
Current liabilities					
Trade and other payables	21	48,159	34,911	6,926	7,023
Loans and borrowings	19	26,958	28,529	20,237	19,044
Income tax payable		–	446	–	–
		75,117	63,886	27,163	26,067
Total liabilities		113,099	125,495	59,419	75,674
Total equity and liabilities		368,892	372,365	191,484	202,402

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Changes in Equity

for the financial year ended 31 July 2012

		Attributable to owners of the parent								
			Non-distributable		Distributable		Non-distributable			
	Equity, total	Equity attributable to owners of the parent, total	Share capital (Note 17)	Share premium (Note 18)	Retained earnings (Note 18)	Other reserves, total	Foreign currency translation reserve (Note 18)	Asset revaluation reserve (Note 18)	Statutory reserve fund (Note 18)	Non-controlling interests
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group										
At 1 August 2010	232,657	214,412	43,015	663	156,914	13,820	905	12,915	–	18,245
Total comprehensive income	15,503	11,206	–	–	12,382	(1,176)	(1,176)	–	–	4,297
Transaction with owners										
Transfer to statutory reserve fund	–	–	–	–	(905)	905	–	–	905	–
Dividend (Note 28)	(1,290)	(1,290)	–	–	(1,290)	–	–	–	–	–
Total transactions with owners	(1,290)	(1,290)	–	–	(2,195)	905	–	–	905	–
At 31 July 2011	246,870	224,328	43,015	663	167,101	13,549	(271)	12,915	905	22,542
Total comprehensive income	10,213	6,991	–	–	4,161	2,830	2,830	–	–	3,222
Transaction with owners										
Transfer to statutory reserve fund	–	–	–	–	–	–	–	–	–	–
Dividend (Note 28)	(1,290)	(1,290)	–	–	(1,290)	–	–	–	–	–
Total transactions with owners	(1,290)	(1,290)	–	–	(1,290)	–	–	–	–	–
At 31 July 2012	255,793	230,029	43,015	663	169,972	16,379	2,559	12,915	905	25,764

		Non-distributable		Distributable		Non-distributable	
	Equity, total	Share capital (Note 17)	Share premium (Note 18)	Retained earnings (Note 18)	Other reserves, total	Asset revaluation reserve (Note 18)	Merger relief reserve (Note 18)
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Company							
At 1 August 2010	122,988	43,015	663	73,546	5,764	4,549	1,215
Total comprehensive income	5,030	–	–	5,030	–	–	–
Transaction with owners							
Dividend (Note 28)	(1,290)	–	–	(1,290)	–	–	–
At 31 July 2011	126,728	43,015	663	77,286	5,764	4,549	1,215
Total comprehensive income	6,627	–	–	6,627	–	–	–
Transaction with owners							
Dividend (Note 28)	(1,290)	–	–	(1,290)	–	–	–
At 31 July 2012	132,065	43,015	663	82,623	5,764	4,549	1,215

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Cash Flows
for the financial year ended 31 July 2012

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Operating activities				
Profit before tax	11,981	22,716	6,702	5,703
Adjustments for:				
Depreciation of property, plant and equipment	56,313	51,972	12,941	12,737
Impairment of property, plant and equipment	–	250	–	250
(Gain)/loss on disposal of property, plant and equipment	(185)	2	(193)	–
Loss/(gain) on disposal of investment securities held for trading	15	(312)	15	(312)
Plant and equipment written off	186	45	14	8
Net fair value gain on investment securities held for trading	(479)	(1,220)	(479)	(1,220)
Unrealised exchange loss/(gain)	331	(626)	(725)	1,263
Impairment of trade receivables	6,967	–	–	–
Inventories written down	1,822	298	–	–
Dividend income	(417)	(509)	(417)	(509)
Interest income	(2,565)	(1,298)	(2,646)	(2,351)
Finance costs	3,318	3,256	2,455	2,424
Operating cash flows before working capital changes	77,287	74,574	17,667	17,993
Changes in working capital:				
Decrease/(increase) in inventories	603	(7,212)	(27)	45
(Decrease)/increase in prepayment, trade and other receivables	(5,505)	(5,496)	20,611	(37,881)
Increase/(decrease) in trade and other payables	838	(24,009)	(267)	(1,082)
Cash generated from/(used in) operations	73,223	37,857	37,984	(20,925)
Income taxes paid	(5,568)	(6,058)	(275)	(459)
Interest paid	(3,318)	(3,256)	(2,455)	(2,424)
Interest received	2,565	1,298	2,646	2,351
Net cash generated from/(used in) operating activities	66,902	29,841	37,900	(21,457)

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Investing activities				
Proceeds from disposal of investment securities	1,148	1,094	1,148	1,094
Dividend income	417	509	417	509
Purchase of property, plant and equipment	(24,246)	(57,825)	(6,184)	(6,969)
Proceeds from disposal of property, plant and equipment	634	833	563	–
Investment in a subsidiary	–	–	–	(17,479)
Net cash used in investing activities	(22,047)	(55,389)	(4,056)	(22,845)
Financing activities				
Repayment of obligations under finance leases	(2,265)	(2,140)	(296)	(1,149)
Repayment of term loans	(29,616)	(21,635)	(19,466)	(9,504)
Repayment of loan to a subsidiary	–	–	–	(8,000)
Proceeds from term loans	3,464	82,379	–	69,445
Dividends paid on ordinary shares	(1,290)	(1,290)	(1,290)	(1,290)
Net cash (used in)/generated from financing activities	(29,707)	57,314	(21,052)	49,502
Net increase in cash and bank balances	15,148	31,766	12,792	5,200
Effects of exchange rate changes on cash and cash equivalents	(1,918)	175	–	–
Cash and bank balances at beginning of year	100,526	68,585	21,850	16,650
Cash and bank balances at end of year (Note 16)	113,756	100,526	34,642	21,850

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

Statements of Cash Flows
for the financial year ended 31 July 2012 (cont'd)

1. Corporate information

KESM Industries Berhad ("the Company") is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Main Market of Bursa Malaysia Securities Berhad. The registered office of the Company is located at 802, 8th Floor, Block C, Kelana Square, No. 17, Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia.

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. The principal activities of its subsidiaries are the provision of semiconductor burn-in and testing services, and electronic manufacturing services. There have been no significant changes in the nature of these activities during the year.

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Financial Reporting Standards ("FRSs") and the Companies Act, 1965 in Malaysia. At the beginning of the current financial year, the Group and the Company adopted new and revised FRSs which are mandatory for financial periods beginning on or after 1 August 2011 as described fully in Note 2.2.

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

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

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 August 2011, the Group and the Company adopted the following new and amended FRSs and IC Interpretations mandatory for annual financial periods beginning on or after 1 August 2011.

- Amendments to FRS 1 Limited Exemption from Comparative FRS 7 Disdosures for First-time Adopters
- Amendments to FRS 1 Additional Exemptions for First-time Adopters
- Amendments to FRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to FRS 7 Improving Disclosures about Financial Instruments
- Improvements to FRSs issued in 2010
- IC Interpretation 4 Determining whether an Arrangement contains a Lease
- IC Interpretation 18 Transfers of Assets from Customers
- IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendments to IC Interpretation 14 Prepayments of a Minimum Funding Requirement

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and of the Company.

2.3 Malaysian Financial Reporting Standards (MFRS Framework)

On 19 November 2011, the Malaysian Accounting Standards Board (MASB) issued a new MASB approved accounting framework, the Malaysian Financial Reporting Standards (MFRS Framework).

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

2.3 Malaysian Financial Reporting Standards (MFRS Framework) (cont'd)

The MFRS Framework is to be applied by all Entities Other Than Private Entities for annual periods beginning on or after 1 January 2012, with the exception of entities that are within the scope of MFRS 141 Agriculture (MFRS 141) and IC Interpretation 15 Agreements for Construction of Real Estate (IC 15), including its parent, significant investor and venturer.

The Group will be required to prepare financial statements using the MFRS Framework in its first MFRS financial statements for the financial year ending 31 July 2013. In presenting its first MFRS financial statements, the Group will be required to restate the comparative financial statements to amounts reflecting the application of MFRS Framework. The majority of the adjustments required on transition will be made, retrospectively, against opening retained earnings.

The Group has established a project team to plan and manage the adoption of the MFRS Framework.

The Group has not completed its assessment of the financial effects of the differences between Financial Reporting Standards and accounting standards under the MFRS Framework. Accordingly, the consolidated financial performance and financial position as disclosed in these financial statements for the year ended 31 July 2012 could be different if prepared under the MFRS Framework.

The Group considers that it is achieving its scheduled milestones and expects to be in a position to fully comply with the requirements of the MFRS Framework for the financial year ending 31 July 2013.

2.4 Basis of consolidation

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

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full except for unrealised losses which are not eliminated when indications of impairment exists.

Acquisitions of subsidiaries are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

In business combinations achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree net identifiable assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

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

2.4 Basis of consolidation (cont'd)

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

2.5 Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and is presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

2.6 Functional and foreign currency

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

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

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

2.6 Functional and foreign currency (cont'd)

(iii) Foreign operations

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

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

2.7 Property, plant and equipment

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

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

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

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets at annual rates as follows:

-	Buildings	5.0% - 11.1%
-	Leasehold land	1.0% - 1.7%
-	Leasehold improvements	20.0%
-	Plant, machinery and test equipment	20.0% - 66.7%
-	Motor vehicles	20.0%
-	Office equipment, furniture and fittings and computers	10.0% - 33.3%

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

2.7 Property, plant and equipment (cont'd)

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

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

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

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

2.8 Impairment of non-financial assets

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

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

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

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

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

2.9 Subsidiaries

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

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

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

2.10 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition, and the categories include financial assets at fair value through profit or loss and loans and receivables.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are held-for-trading or are designated as such upon initial recognition. Financial assets held-for-trading are investment securities and derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss do not include exchange differences on monetary items, interest and dividend income. Exchange differences on monetary items, interest and dividend income on financial assets at fair value through profit or loss are recognised separately in profit or loss as part of other losses or other income.

Financial assets at fair value through profit or loss could be presented as current or non-current. Financial assets that is held primarily for trading purposes are presented as current whereas financial assets that is not held for trading purposes are presented as current or non-current based on the settlement date.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned. All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, the date that the Group and the Company commit to purchase or sell the asset.

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

2.11 Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

(i) Trade and other receivables

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group and the Company consider factors such as the probability of insolvency or significant financial difficulties of the debtor, certainty of customers' orders and default or significant delay in payments. For certain categories of financial assets, such as trade receivables, receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.12 Inventories

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

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

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

2.13 Cash and cash equivalents

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

2.14 Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

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

2.14 Financial liabilities (cont'd)

Financial liabilities, within the scope of FRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. All financial liabilities of the Group and of the Company are classified as other financial liabilities.

(i) Other financial liabilities

The Group's and the Company's other financial liabilities include trade payables, other payables and loans and borrowings.

Trade and other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

For other financial liabilities, gains and losses are recognised in the profit and loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.15 Borrowing costs

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

2.16 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. 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. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

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

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

2.16 Employee benefits (cont'd)

(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 the reporting date.

2.17 Leases

(i) As lessee - Finance lease

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

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

(ii) As lessee - Operating lease

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

(iii) As lessor - Finance lease

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.18.

2.18 Revenue

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

(i) Revenue from burn-in, testing services and electronic manufacturing services

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

(ii) Interest income

Interest income is recognised using the effective interest method.

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

2.18 Revenue (cont'd)

(iii) Dividend income

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

(iv) Rental income

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

2.19 Income taxes

(i) Current tax

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

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

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

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

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

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

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

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

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

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

2.19 Income taxes (cont'd)

(ii) Deferred tax (cont'd)

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

2.20 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 27, including the factors used to identify the reportable segments and the measurement basis of segment information.

2.21 Share capital and share issuance expenses

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

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Ordinary shares are classified as equity. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.22 Contingencies

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

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

2.23 Government grants

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs, where appropriate, for which the grants are intended to compensate. Recognition of government grants in profit or loss shall be on a receipts basis only if no basis existed for allocating a grant to periods other than the one in which it was received.

3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disdosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. There is no significant judgement involved in the preparation of the Group's financial statements.

3.1 Key sources of estimation uncertainty

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

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

The cost of plant, machinery and test equipment is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant, machinery and test equipment to be within 1.5 to 5 years. These are common life expectancies applied in the semiconductor industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's plant and equipment at the reporting date is disclosed in Note 11.

(ii) Deferred tax assets

Deferred tax assets are recognised for unutilised reinvestment allowance to the extent that it is probable that taxable profit will be available against which the unutilised reinvestment allowance can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax asset has not been recognised in respect of unutilised reinvestment allowance as it is not probable that sufficient taxable income will be available against which these benefits can be realised. The details are as disclosed in Note 20.

(iii) Impairment of loans and receivables

The Group assesses at each reporting date whether there is any objective that a financial assets is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor, certainty of customers' orders and defaults or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount in trade receivables of the Group which has been past due but not impaired amounted to RM14,394,000 (2011: RM22,969,000). Notwithstanding that the debts are long overdue, the management is confident of their recovery. The details are as disclosed in Note 14.

4. Revenue

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

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Burn–in and testing services	163,630	173,630	61,141	61,987
Electronic manufacturing services	73,310	74,483	–	–
	236,940	248,113	61,141	61,987

5. Interest income

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Interest income from:				
- Deposits with licensed banks	2,421	1,275	556	156
- Loan to a subsidiary	–	–	2,090	2,195
- Others	144	23	–	–
	2,565	1,298	2,646	2,351

6. Employee benefits expense

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Wages and salaries	56,033	52,603	21,319	20,724
Contributions to defined contribution plans	2,365	2,178	789	780
Social security contributions	3,379	2,210	97	99
Short term accumulating compensated absences	84	67	68	16
Other benefits	4,780	4,627	1,609	1,488
	66,641	61,685	23,882	23,107

The above employee benefits expense excludes directors' remunerations.

7. Finance costs

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Interest expense on:				
- Term loans	3,006	2,938	2,426	2,253
- Obligations under finance leases	181	201	29	119
- Loan from a corporate shareholder	117	117	–	–
- Loan from a subsidiary	–	–	–	52
- Others	14	–	–	–
	3,318	3,256	2,455	2,424

8. Profit before tax

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Profit before tax is arrived at:				
After charging:				
Auditors' remunerations				
- statutory audit	263	243	100	93
- non-audit services	5	5	5	5
Directors' remuneration	1,241	1,212	1,133	1,104
Rental of equipment	102	87	–	–
Rental of factory	2,115	1,895	1,386	1,260
Utilities	21,282	21,213	8,043	9,105
Repairs and maintenance	10,139	11,240	2,860	2,873
Inventories written down	1,822	298	–	–
Loss on disposal of property, plant and equipment	–	2	–	–
Loss on disposal of investment securities held for trading	15	–	15	–
Plant and equipment written off	186	45	14	8
Impairment of property, plant and equipment	–	250	–	250
Net foreign exchange loss	–	806	–	1,351
Impairment of trade receivables	6,967	–	–	–
and crediting:				
Gain on disposal of property, plant and equipment	185	–	193	–
Gain on disposal of investment securities held for trading	–	312	–	312
Government grant	2,655	–	–	–
Reversal of sundry payables	3,421	254	547	254
Net fair value gain on investment securities held for trading	479	1,220	479	1,220
Rental income from equipment	–	1,604	–	–
Rental income from premises	–	–	965	957
Net foreign exchange gain	2,482	–	759	–

8. Profit before tax (cont'd)

Information on Directors' remuneration is as follows:

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Directors' remuneration				
Executive:				
- Fees	161	161	61	61
- Salaries and other emoluments	916	874	916	874
	1,077	1,035	977	935
Non-executive:				
- Fees	154	166	146	158
- Allowances	10	11	10	11
	164	177	156	169
Total Directors' remuneration	1,241	1,212	1,133	1,104

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

	Number of Directors 2012	Number of Directors 2011
Executive Directors:		
RM450,001 to RM500,000	1	1
RM550,001 to RM600,000	1	1
Non-Executive Directors:		
Less than RM50,000	4	5

Executive Directors of the Company had been granted the following number of options under the Employees Share Option Scheme ("ESOS"), which had expired on 4 December 2010:

	Group/Company 2012 '000	Group/Company 2011 '000
At 1 August	–	434
Expired	–	(434)
At 31 July	–	–

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2012 No	2012 WAEP (RM)	2011 No	2011 WAEP (RM)
Outstanding at beginning of year	–	–	1,574,000	2.44
Less: Expired	–		(1,574,000)	
Outstanding at end of year	–		–	

There was neither options granted nor exercise of options during the previous and current financial year as the options scheme had expired on 4 December 2010.

9. Income tax expense

Major components of income tax expense:

The major components of income tax expense for the years ended 31 July 2012 and 2011 are:

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Current income tax				
- Malaysian income tax	1,374	1,619	703	127
- Foreign tax	3,979	3,805	–	–
- (Over)/under provision in respect of previous years	(159)	(175)	22	332
	5,194	5,249	725	459
Deferred income tax (Note 20)				
- Origination and reversal of temporary differences	(610)	621	(725)	377
- Under/(over) provision in prior years	14	167	75	(163)
	(596)	788	(650)	214
Income tax expense recognised in profit or loss	4,598	6,037	75	673

Reconciliation between tax expense and accounting profit:

The reconciliation between tax expense and product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 July 2012 and 2011 is as follows:

	Group	
	2012	2011
	RM'000	RM'000
Profit before tax	11,981	22,716
Tax at Malaysian statutory tax rate of 25% (2011: 25%)	2,995	5,679
Adjustments:		
Income not subject to taxation	(766)	(1,009)
Non-deductible expenses	211	755
Utilisation of reinvestment allowance	–	(359)
Utilisation of previously unrecognised reinvestment allowance	(1,810)	(981)
Deferred tax asset recognised on unutilised reinvestment allowance	(528)	(540)
Deferred tax asset not recognised	4,641	2,500
Over provision of income tax expense in previous years	(159)	(175)
Under provision of deferred tax in previous years	14	167
Income tax expense recognised in profit and loss	4,598	6,037

9. Income tax expense (cont'd)

	Company 2012 RM'000	Company 2011 RM'000
Profit before tax	6,702	5,703
Tax at Malaysian statutory tax rate of 25% (2011: 25%)	1,676	1,426
Adjustments:		
Income not subject to tax	(682)	(1,009)
Non-deductible expenses	677	508
Utilisation of previously unrecognised reinvestment allowance	(1,165)	(129)
Deferred tax asset recognised on unutilised reinvestment allowance	(528)	(292)
Under provision of income tax expense in previous years	22	332
Under/(over) provision of deferred tax in previous years	75	(163)
Income tax expense recognised in profit and loss	75	673

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2011: 25%) of the estimated assessable profit for the year.

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

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

10. Earnings per share

Basic earnings per share amounts are calculated by dividing profit net of tax, attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year.

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

	Group 2012 RM'000	Group 2011 RM'000
Profit attributable to owners of the parent	4,161	12,382
	Number '000	**Number '000**
Weighted average number of ordinary shares in issue	43,015	43,015
Basic earnings per share	9.7 sen	28.8 sen

The Group has no potential ordinary shares in issue as at reporting date and therefore diluted earnings per share has not been presented.

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

11. Property, plant and equipment

	Buildings RM'000	Leasehold land* RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Group								
At 31 July 2012								
Cost or valuation								
At 1 August 2011	22,035	6,520	12,360	491,379	1,517	9,753	4,896	548,460
Additions	–	–	458	23,304	626	405	15,333	40,126
Disposals	–	–	–	(376)	(475)	(2)	(370)	(1,223)
Write off	–	–	(729)	(6,330)	(3)	(1,894)	–	(8,956)
Reclassification	–	–	165	5,409	14	463	(6,051)	–
Reclassified as held for sale	(510)	(320)	–	–	–	–	–	(830)
Exchange differences	–	–	565	6,192	4	110	135	7,006
At 31 July 2012	21,525	6,200	12,819	519,578	1,683	8,835	13,943	584,583
Accumulated depreciation and impairment losses								
At 1 August 2011	5,096	925	6,383	363,916	1,267	7,397	708	385,692
Depreciation charge for the year	2,229	142	2,116	50,769	154	903	–	56,313
Disposals	–	–	–	(297)	(475)	(2)	–	(774)
Write off	–	–	(729)	(6,158)	(3)	(1,880)	–	(8,770)
Reclassified as held for sale	(63)	(346)	–	–	–	–	–	(409)
Exchange differences	–	–	226	1,978	3	51	–	2,258
At 31 July 2012	7,262	721	7,996	410,208	946	6,469	708	434,310
Analysed as follows:								
Accumulated depreciation	7,262	721	7,894	409,196	946	6,442	–	432,461
Accumulated impairment losses	–	–	102	1,012	–	27	708	1,849
	7,262	721	7,996	410,208	946	6,469	708	434,310
Net carrying amount								
At cost	–	–	4,823	109,370	737	2,366	13,235	130,531
At valuation	14,263	5,479	–	–	–	–	–	19,742
As at 31 July 2012	14,263	5,479	4,823	109,370	737	2,366	13,235	150,273

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

	Buildings RM'000	Leasehold land* RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Group (cont'd)								
At 31 July 2011								
Cost or valuation								
At 1 August 2010	22,035	6,520	8,518	429,245	1,412	8,356	19,983	496,069
Additions	–	–	3,997	47,040	135	1,580	8,025	60,777
Disposals	–	–	–	(2,905)	–	(3)	–	(2,908)
Write off	–	–	–	(3,430)	(28)	(162)	–	(3,620)
Reclassification	–	–	–	22,815	–	12	(22,827)	–
Exchange differences	–	–	(155)	(1,386)	(2)	(30)	(285)	(1,858)
At 31 July 2011	22,035	6,520	12,360	491,379	1,517	9,753	4,896	548,460
Accumulated depreciation and impairment losses								
At 1 August 2010	2,867	783	4,571	322,743	1,149	6,804	708	339,625
Depreciation charge for the year	2,229	142	1,829	46,874	146	752	–	51,972
Impairment losses	–	–	43	196	–	11	–	250
Disposals	–	–	–	(2,073)	–	–	–	(2,073)
Write off	–	–	–	(3,392)	(28)	(155)	–	(3,575)
Exchange differences	–	–	(60)	(432)	–	(15)	–	(507)
At 31 July 2011	5,096	925	6,383	363,916	1,267	7,397	708	385,692
Analysed as follows:								
Accumulated depreciation	5,096	925	6,281	362,904	1,267	7,370	–	383,843
Accumulated impairment losses	–	–	102	1,012	–	27	708	1,849
	5,096	925	6,383	363,916	1,267	7,397	708	385,692
Net carrying amount								
At cost	–	–	5,977	127,463	250	2,356	4,188	140,234
At valuation	16,939	5,595	–	–	–	–	–	22,534
As at 31 July 2011	16,939	5,595	5,977	127,463	250	2,356	4,188	162,768

* Included in the leasehold land of the Group is the carrying value of short term leasehold land of RM2,186,000 (2011: RM2,250,000).

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

	Buildings RM'000	Leasehold land RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Company								
At 31 July 2012								
Cost or valuation								
At 1 August 2011	10,545	3,820	2,185	131,869	611	4,307	1,096	154,433
Additions	–	–	29	2,340	626	250	3,537	6,782
Disposals	–	–	–	–	(471)	–	(370)	(841)
Write off	–	–	(130)	(1,785)	(3)	(1,151)	–	(3,069)
Reclassification	–	–	–	1,317	14	74	(1,405)	–
Reclassified as held for sale	(510)	(320)	–	–	–	–	–	(830)
At 31 July 2012	10,035	3,500	2,084	133,741	777	3,480	2,858	156,475
Accumulated depreciation and impairment losses								
At 1 August 2011	2,509	475	1,677	99,066	589	3,657	708	108,681
Depreciation charge for the year	1,075	78	149	11,273	75	291	–	12,941
Disposals	–	–	–	–	(471)	–	–	(471)
Write off	–	–	(130)	(1,785)	(3)	(1,137)	–	(3,055)
Reclassified as held for sale	(63)	(346)	–	–	–	–	–	(409)
At 31 July 2012	3,521	207	1,696	108,554	190	2,811	708	117,687
Analysed as follows:								
Accumulated depreciation	3,521	207	1,696	107,914	190	2,800	–	116,328
Accumulated impairment losses	–	–	–	640	–	11	708	1,359
	3,521	207	1,696	108,554	190	2,811	708	117,687
Net carrying amount								
At cost	–	3,293	388	25,187	587	669	2,150	32,274
At valuation	6,514	–	–	–	–	–	–	6,514
At 31 July 2012	6,514	3,293	388	25,187	587	669	2,150	38,788

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

	Buildings RM'000	Leasehold land RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Company (cont'd)								
At 31 July 2011								
Cost or valuation								
At 1 August 2010	10,545	3,820	2,133	115,016	611	4,141	10,997	147,263
Additions	–	–	52	2,071	–	307	4,934	7,364
Write off	–	–	–	(53)	–	(141)	–	(194)
Reclassification	–	–	–	14,835	–	–	(14,835)	–
At 31 July 2011	10,545	3,820	2,185	131,869	611	4,307	1,096	154,433
Accumulated depreciation and impairment losses								
At 1 August 2010	1,434	397	1,423	87,916	515	3,487	708	95,880
Depreciation charge for the year	1,075	78	211	11,007	74	292	–	12,737
Impairment losses	–	–	43	196	–	11	–	250
Write off	–	–	–	(53)	–	(133)	–	(186)
At 31 July 2011	2,509	475	1,677	99,066	589	3,657	708	108,681
Analysed as follows:								
Accumulated depreciation	2,509	475	1,575	98,054	589	3,630	–	106,832
Accumulated impairment losses	–	–	102	1,012	–	27	708	1,849
	2,509	475	1,677	99,066	589	3,657	708	108,681
Net carrying amount								
At cost	–	–	508	32,803	22	650	388	34,371
At valuation	8,036	3,345	–	–	–	–	–	11,381
At 31 July 2011	8,036	3,345	508	32,803	22	650	388	45,752

(i) Revaluation of buildings and leasehold land

The Group's and the Company's buildings were revalued based on a valuation conducted by Colliers, Jordan Lee & Jaafar, a firm of independent professional valuers, in April 2009. The valuers used the comparison method of valuation to determine the market value of the leasehold land and buildings. The surplus arising from this revaluation has been credited to revaluation reserve.

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

(i) Revaluation of buildings and leasehold land (cont'd)

If the leasehold land and buildings were measured using cost model, the carrying amounts would be as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Buildings	3,730	4,289	1,726	2,101
Leasehold land	1,913	2,495	1,740	2,317

(ii) Assets held under finance leases

The carrying amounts of plant and equipment held under finance leases at reporting date are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Plant, machinery and test equipment	1,305	3,096	356	509
Office equipment, furniture and fittings and computers	279	487	–	–
Motor vehicles	688	89	582	–
	2,272	3,672	938	509

(iii) Assets acquisition

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

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Cash payments	24,246	57,825	6,184	6,969
Finance leases	665	2,538	433	–
Financed by creditors	15,215	414	165	395
	40,126	60,777	6,782	7,364

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

(iv) Assets pledged as security

The carrying amount of plant, machinery and test equipment of the Group and of the Company are pledged as securities for term loans as disclosed in Note 19.

(v) Impairment of assets

In the previous financial year, the Group carried out a review of the recoverable amount of its plant, machinery and test equipment. An impairment loss of RM250,000, representing the write-down of assets to the recoverable amount was recognised in the statements of comprehensive income for the financial year ended 31 July 2011, because they were not in use. No impairment loss is recognised in the current financial year.

(vi) Assets classified as held for sale

On 30 June 2012, the Company has entered into an agreement for the disposal of one piece of land and a building at a consideration of RM750,000. The net book value of the land and building as at the reporting date is RM421,000. The disposal is expected to be completed by September 2012.

12. Investment in subsidiaries

	Company 2012 RM'000	Company 2011 RM'000
Unquoted shares, at costs	43,533	43,533

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Principal activities	Proportion of ownership interest 2012 %	Proportion of ownership interest 2011 %
KESP Sdn Bhd *	Malaysia	Provision of semiconductor burn-in services and electronic manufacturing services	100	100
KESM Test (M) Sdn Bhd *	Malaysia	Provision of semiconductor testing services	65.38	65.38
KESM Industries (Tianjin) Co., Ltd. *^	China	Provision of semiconductor burn-in and testing services	100	100

* Audited by Ernst & Young, Malaysia.
^ Audited for the purpose of Group consolidation.

13. Inventories

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Cost				
Raw materials	13,643	14,719	–	–
Consumables	3,423	2,107	183	156
Work-in-progress	1,616	815	–	–
Finished goods	1,892	5,358	–	–
	20,574	22,999	183	156

During the year, the amount of inventories recognised as an expense are disclosed as a separate line in the statements of comprehensive income of the Group and of the Company. Included in the raw materials is inventories written down of the Group of RM1,822,000 (2011: RM298,000).

14. Trade and other receivables

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Current				
Trade receivables				
Third parties	70,835	64,883	13,558	13,128
Less: Allowance for impairment	(6,967)	–	–	–
	63,868	64,883	13,558	13,128
Other receivables				
Refundable deposits	894	893	492	526
Sundry receivables	280	1,349	44	1,037
Amounts due from subsidiaries	–	–	13,028	13,081
Loans to subsidiaries	–	–	13,239	10,258
Amounts due from related parties	55	3	–	–
	1,229	2,245	26,803	24,902
	65,097	67,128	40,361	38,030
Non-current				
Other receivables				
Loans to subsidiaries	–	–	20,637	39,847
Total trade and other receivables	65,097	67,128	60,998	77,877
Add: Cash and bank balances (Note 16)	113,756	100,526	34,642	21,850
Total loans and receivables	178,853	167,654	95,640	99,727

14. Trade and other receivables (cont'd)

(i) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 95 days (2011: 30 to 95 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Ageing analysis of trade receivables

The ageing analysis of the Group's and of the Company's trade receivables is as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Neither past due nor impaired	49,474	41,914	10,522	9,830
Past due not impaired				
- 1 to 30 days	13,472	12,212	3,007	3,266
- 31 to 60 days	567	1,295	5	32
- 61 to 90 days	79	2,345	1	–
- 91 to 120 days	41	2,032	23	–
- More than 121 days	235	5,085	–	–
	14,394	22,969	3,036	3,298
Impaired	6,967	–	–	–
	70,835	64,883	13,558	13,128

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment records with the Group and the Company.

None of the Group's and of the Company's trade receivables that are neither past due nor impaired have been renegotiated during the financial year.

Receivables that are past due but not impaired

The Group's and the Company's trade receivables which are past due but not impaired, amounting to RM14,394,000 (2011: RM22,969,000) and RM3,036,000 (2011: RM3,298,000) respectively, are unsecured.

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2012 RM'000	2011 RM'000
Trade receivables (gross)	6,957	–
Less: Allowance for impairment	(6,957)	–
	–	–
Movement in allowance account		
At 1 August	–	–
Charge for the year (Note 8)	6,967	–
At 31 July	6,967	–

14. Trade and other receivables (cont'd)

(i) Trade receivables (cont'd)

Trade receivables that are individually determined to be impaired at the reporting date relate to a debtor that is currently undergoing several legal proceedings and has defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

(ii) Related party receivables

Amounts due from subsidiaries are unsecured, non-interest bearing and repayable upon demand except for loans to subsidiaries which bear interests at commercial rates during the financial year. The non-current loans to subsidiaries are due in 2015.

Amounts due from related parties are unsecured, non-interest bearing and repayable upon demand. Related parties refer to a substantial corporate shareholder, Sunright Limited, in which certain Directors have financial interests, and its subsidiaries.

The carrying amounts of total trade and other receivables are denominated in the following currencies:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
United States Dollar ("USD")	11,030	21,880	43,922	60,020
Ringgit Malaysia ("RM")	34,219	29,619	17,076	17,802
Renminbi ("RMB")	17,905	15,079	–	–
Others	1,943	550	–	55
	65,097	67,128	60,998	77,877

15. Investment securities

	Group/Company	
	2012 RM'000	2011 RM'000
Investments held for trading		
Equity investments (quoted in Malaysia)	10,631	11,315

16. Cash and bank balances

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Deposits with licensed banks	96,257	74,877	31,176	18,803
Cash at banks	17,499	25,649	3,466	3,047
	113,756	100,526	34,642	21,850

16. Cash and bank balances (cont'd)

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
USD	3,609	4,794	1,039	320
RM	102,206	79,545	33,603	21,530
Others	7,941	16,187	–	–
	113,756	100,526	34,642	21,850

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between seven days and three months, depending on the immediate cash requirements of the Group and of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates as at 31 July 2012 for the Group and the Company were 1.8% (2011: 1.9%) and 2.0% (2011: 2.7%) respectively.

17. Share capital

	Group/Company		Group/Company	
	2012 Number '000	2011 Number '000	2012 RM'000	2011 RM'000
Authorised share capital:				
At beginning/end of year	50,000	50,000	50,000	50,000
Issued and fully paid:				
Ordinary shares of RM1 each				
At beginning/end of year	43,015	43,015	43,015	43,015

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

18. Reserves

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Distributable:				
Retained earnings	169,972	167,101	82,623	77,286
Non-distributable:				
Share premium	663	663	663	663
Asset revaluation reserve	12,915	12,915	4,549	4,549
Statutory reserve fund	905	905	–	–
Merger relief reserve	–	–	1,215	1,215
Foreign currency translation reserve	2,559	(271)	–	–
	187,014	181,313	89,050	83,713

18. Reserves (cont'd)

(i) Retained earnings

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

The Company did not elect for the irrevocable option to disregard the Section 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the Section 108 balance as at 31 July 2012 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at reporting date, the Company has sufficient credit in the Section 108 balance to pay franked dividends amounting to RM25,100,000 (2011: RM25,100,000) out of its retained earnings. As at reporting date, the Company has sufficient tax exempt account balance to distribute tax exempt dividends of approximately RM77,289,000 (2011: RM70,602,000).

(ii) Asset revaluation reserve

The asset revaluation reserve represents the surplus on revaluation of buildings, net of deferred tax, and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in other comprehensive income.

(iii) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operation whose functional currency is different from that of the Group's presentation currency.

(iv) Statutory reserve fund

In accordance with the Foreign Enterprise Law applicable to the subsidiary in the People's Republic of China ("PRC"), the subsidiary is required to make an appropriation to a Statutory Reserve Fund ("SRF"). At least 10% of the statutory after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

(v) Merger relief reserve

Merger reserve represents the excess of consideration paid over the share capital of the acquired subsidiary.

19. Loans and borrowings

	Maturity	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
Current					
Secured:					
Obligations under finance leases (Note 23)	2013	1,594	2,165	230	254
Term loans	2013	24,474	26,364	20,007	18,790
		26,068	28,529	20,237	19,044
Unsecured:					
Term loan		890	–	–	–
		26,958	28,529	20,237	19,044
Non-current					
Secured:					
Obligations under finance leases (Note 23)	2014-2016	605	1,634	268	107
Term loans	2014-2016	33,289	55,305	30,780	48,326
		33,894	56,939	31,048	48,433
Unsecured:					
Other loan		1,374	1,374	–	–
		35,268	58,313	31,048	48,433
Total loans and borrowings					
Obligations under finance leases (Note 23)		2,199	3,799	498	361
Term loans		58,653	81,669	50,787	67,116
Other loan		1,374	1,374	–	–
		62,226	86,842	51,285	67,477

	Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
The remaining maturities of the loans and borrowings as at 31 July are as follows:				
Within one year	26,958	28,529	20,237	19,044
More than one year and less than five years	33,894	56,939	31,048	48,433
Five years and more	1,374	1,374	–	–
	62,226	86,842	51,285	67,477

Term loans are secured by way of:

(i) first party pledge over certain of the Group's and Company's plant and equipment with carrying amount of RM19,808,000 (2011: RM35,204,000) and RM12,061,000 (2011: RM15,935,000), respectively, as referred to in Note 11(iv);

(ii) negative pledge; and

(iii) corporate guarantee provided by the Company.

19. Loans and borrowings (cont'd)

The secured term loans of the Group and of the Company bore interests between 2.69% and 7.25% per annum (2011: 3.0% and 6.6% per annum) during the financial year.

Other loan represents an unsecured loan obtained from a substantial corporate shareholder, Sunright Limited. This loan bore interest at 8.5% per annum (2011: 8.5% per annum) during the financial year and is not expected to be repaid in the next 12 months.

20. Deferred tax (assets)/liabilities

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
At beginning of year	(2,024)	(2,803)	214	–
Recognised in profit or loss (Note 9)	(596)	788	(650)	214
Exchange differences	30	(9)	–	–
At end of year	(2,590)	(2,024)	(436)	214
Presented after appropriate offsetting as follows:				
Deferred tax assets	(5,304)	(5,320)	(1,644)	(960)
Deferred tax liabilities	2,714	3,296	1,208	1,174
	(2,590)	(2,024)	(436)	214

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

Deferred tax liabilities of the Group

	Revaluation surplus RM'000	Provisions RM'000	Total RM'000
At 1 August 2010	3,583	–	3,583
Recognised in profit or loss	(717)	430	(287)
At 31 July 2011	2,866	430	3,296
Recognised in profit or loss	(333)	(279)	(612)
Exchange differences	–	30	30
At 31 July 2012	2,533	181	2,714

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

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Unutilised reinvesment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2010	(2,330)	(2,417)	(1,639)	(6,386)
Recognised in profit or loss	(47)	1,876	(754)	1,075
Exchange differences	–	–	(9)	(9)
At 31 July 2011	(2,377)	(541)	(2,402)	(5,320)
Recognised in profit or loss	(865)	(279)	(570)	16
At 31 July 2012	(1,512)	(820)	(2,972)	(5,304)

Deferred tax liabilities of the Company

	Revaluation surplus RM'000	Others RM'000	Total RM'000
At 1 August 2010	1,704	–	1,704
Recognised in profit or loss	(530)	–	(530)
At 31 July 2011	1,174	–	1,174
Recognised in profit or loss	(146)	180	34
At 31 July 2012	1,028	180	1,208

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Unutilised reinvesment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2010	(182)	(501)	(1,021)	(1,704)
Recognised in profit or loss	73	209	462	744
At 31 July 2011	(109)	(292)	(559)	(960)
Recognised in profit or loss	314	528	158	(684)
At 31 July 2012	(423)	(820)	(401)	(1,644)

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

	Group	
	2012 RM'000	2011 RM'000
Unutilised reinvestment allowance	110,655	106,730
Property, plant and equipment	30,303	15,786
Other temporary differences	3,704	–

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

The availability of the unutilised reinvestment allowance and other deductible temporary difference for offsetting against future taxable profits of the subsidiaries is subject to the tax laws and legislation of the countries in which the subsidiaries operate.

21. Trade and other payables

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
Trade payables				
Third parties	10,317	5,956	55	33
Amounts due to related parties	376	449	365	434
Other payables				
Accrued operating expenses	6,871	7,678	3,418	2,918
Sundry payables	14,670	18,266	2,676	2,627
Balance due for acquisitions of property, plant and equipment	15,215	414	165	395
Amounts due to related parties	710	2,148	247	616
Total trade and other payables	48,159	34,911	6,926	7,023
Add: Loans and borrowings (Note 19)	62,226	86,842	51,285	67,477
Total financial liabilities carried at amortised cost	110,385	121,753	58,211	74,500

(i) Trade payables are non-interest bearing. They are normally settled on 30 - 60 days (2011: 30 - 60 days) terms.

(ii) Sundry payables are non-interest bearing. They are normally settled on 30 - 60 days (2011: 30 - 60 days) terms.

(iii) Amounts due to related parties are unsecured, non-interest bearing and are repayable on demand.

The carrying amounts of total trade and other payables are denominated in the following currencies:

	Group		Company	
	2012	2011	2012	2011
	RM'000	RM'000	RM'000	RM'000
USD	21,821	5,152	27	315
RM	21,079	23,818	6,261	5,686
RMB	3,219	2,943	–	–
Others	2,040	2,998	638	1,022
	48,159	34,911	6,926	7,023

22. Related party transactions

(i) Sales and purchase of goods and services

In addition to the related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties took place at terms agreed between the parties during the financial year.

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries				
Management fees charged by Sunright Limited	4,656	4,799	2,059	2,091
Interest on loan from Sunright Limited	117	117	–	–
Sales to:				
- KES Systems & Service (1993) Pte Ltd	471	79	372	–
- KES Systems, Inc.	48	–	–	–
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	1,969	5,430	1,623	625
- Kestronics (M) Sdn Bhd	2,327	1,667	20	900
- KES Systems, Inc.	–	4,095	–	3,411
- KEST Systems & Service Ltd	17	5	17	–

	Company	
	2012 RM'000	2011 RM'000
Transactions with subsidiaries		
Rental income from a subsidiary for rent of a factory	965	957
Finance costs on loan from a subsidiary	–	(52)
Interest income on loan to a subsidiary	2,090	2,195
Loan from a subsidiary	–	3,000

Information regarding outstanding balances arising from related party transactions as at reporting date is disclosed in Note 14, 19 and 21.

Transactions between subsidiaries where Sunright Limited is the major shareholder

Sales of equipment and related machineries amounted to RM1,344,000 was transacted by KESM Test (M) Sdn Bhd to a fellow subsidiary in the previous financial year. There was no such transaction during the current financial year.

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.

22. Related party transactions (cont'd)

(ii) Compensation of key management personnel

The Directors of the Company are the key management personnel of the Company, whose remuneration are disclosed in Note 8.

23. Commitments

(i) Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Property, plant and equipment				
Authorised and contracted for	8,269	10,869	87	739
Authorised but not contracted for	6,699	7,369	–	–
	14,968	18,238	87	739

(ii) Finance lease commitments

The Group and the Company have finance leases for certain items of plant, machinery and test equipment.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Minimum lease payments:				
Not later than one year	1,722	2,316	251	280
After one year and not later than five years	657	1,793	291	117
Total minimum lease payments	2,379	4,109	542	397
Less: Amounts representing finance charges	(180)	(310)	(44)	(36)
Present value of minimum lease payments	2,199	3,799	498	361
Present value of payments:				
Not later than one year (Note 19)	1,594	2,165	230	254
After one year and not later than five years (Note 19)	605	1,634	268	107
Present value of minimum lease payments (Note 19)	2,199	3,799	498	361

24. Fair value of financial instruments

A. Financial instruments that are carried at fair value

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

	Quoted in active markets (Level 1) RM'000	Significant other observable (Level 2) RM'000	Significant other observable (Level 3) RM'000	Total RM'000
Financial assets:				
At 31 July 2012				
Held for trading investments				
- Investment securities (quoted)	10,631	–	–	10,631
At 31 July 2011				
Held for trading investments				
- Investment securities (quoted)	11,315	–	–	11,315

According to Amendments to FRS 7 Improving Disclosure about Financial Instruments, the Group and the Company classify fair value measurement using a fair value hierarchy. The fair value hierarchy have the following levels:

Level 1 - the fair value is measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - the fair value is measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - the fair value is measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

B. Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

The following are classes of financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value:

	Note
Cash and bank balances	16
Loans and borrowings (current)	19
Loans and borrowings (non-current)	19
Trade and other receivables, including loans to subsidiaries (current and non-current)	14
Trade and other payables (current)	21

The carrying amounts of these financial assets and liabilities are reasonable approximation of fair values, either due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the reporting date.

The carrying amount of loans and borrowings, and loans to subsidiaries are reasonable approximation of fair values.

25. Financial risk management objectives and policies

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

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing these risks. The Group's risk management approach seeks to minimise the potential material adverse impact of those exposures.

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

(i) Interest rate risk

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

The Group's and the Company's exposure to interest rate risks arises primarily from their loans and borrowings.

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

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

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM132,000 (2011: RM99,000) higher/lower, arising mainly as a result of lower/higher interest expenses on floating loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

(ii) Foreign currency risk

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

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

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies (Note 16) for working capital purpose.

The Group is also exposed to currency translation risk arising from its net investments in foreign operation, People's Republic of China ("PRC"). The Group's net investment in PRC is not hedged as currency position in RMB is considered to be long-term in nature.

Sensitivity analysis for foreign currency risk

The following table demonstrates the increase/(decrease) in the Group's and the Company's profit net of tax to a reasonably posssible change in USD and RMB against the respective functional currencies of the Group's entities, with all other variables held constant:

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

(ii) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk (cont'd)

		Group 2012 RM'000	Group 2011 RM'000	Company 2012 RM'000	Company 2011 RM'000
USD/RM	- strengthened 1% (2011: 1%)	(45)	94	25	63
	- weakened 1% (2011: 1%)	45	(94)	(25)	(63)
USD/RMB	- strengthened 1% (2011: 1%)	(256)	(319)	–	–
	- weakened 1% (2011: 1%)	256	319	–	–

(iii) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's cash and short-term deposits, operating cash flows, availability of banking facilities and debt maturity profile are actively managed to ensure adequate working capital requirements and that repayment and funding needs are met. The Group's and the Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Group's and of the Company's liabilities at the reporting date based on contractual undiscounted repayment obligations.

2012 RM'000	On demand or within one year	One to five years	Over five years	Total
Group				
Financial liabilities:				
Trade and other payables (Note 21)	48,159	–	–	48,159
Loans and borrowings	29,089	35,589	1,970	66,648
Total undiscounted financial liabilities	77,248	35,589	1,970	114,807
Company				
Financial liabilities:				
Trade and other payables (Note 21)	6,926	–	–	6,926
Loans and borrowings	21,860	32,188	–	54,048
Total undiscounted financial liabilities	28,786	32,188	–	60,974

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

(iii) Liquidity risk (cont'd)

	2011 RM'000			
	On demand or within one year	One to five years	Over five years	Total
Group				
Financial liabilities:				
Trade and other payables (Note 21)	34,911	–	–	34,911
Loans and borrowings	31,532	60,105	1,957	93,594
Total undiscounted financial liabilities	66,443	60,105	1,957	128,505
Company				
Financial liabilities:				
Trade and other payables (Note 21)	7,023	–	–	7,023
Loans and borrowings	21,252	50,687	–	71,939
Total undiscounted financial liabilities	28,275	50,687	–	78,962

(iv) Credit risk

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

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

<u>Exposure to credit risk</u>

At the reporting date, the Group's and the Company's maximum exposure to credit risk is represented by:

- The carrying amount of each class of financial assets recognised in the statements of financial position.

- A nominal amount of RM22,473,000 (2011: RM16,373,000) relating to a corporate guarantee provided by the Company to the banks on the subsidiaries' bank loans.

Information regarding credit enhancements for trade and other receivables is disclosed in Note 14.

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

(iv) Credit risk (cont'd)

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an ongoing basis. The credit risk concentration profile of the Group's and of the Company's trade receivables at the reporting date is as follows:

	2012		2011	
	RM'000	% of total	RM'000	% of total
Group				
By country:				
Malaysia	34,131	53	31,174	48
Others *	29,737	47	33,709	52
	63,868	100	64,883	100

* Others include countries such as People's Republic of China, United States of America and European countries.

	2012		2011	
	RM'000	% of total	RM'000	% of total
By industry sectors:				
Burn-in, testing and electronic manufacturing services	63,868	100	64,883	100

The Company has trade receivables located in Malaysia amounting to approximately RM13,334,000 (2011: RM12,703,000) out of total trade receivables of RM13,558,000 (2011: RM13,128,000).

At the reporting date, approximately:

- 86% (2011: 65%) of the Group's trade receivables were due from 5 (FY2011: 5) major customers who are major players in the semiconductor industry; and

- Less than 1% (2011: less than 1%) of the Group's trade and other receivables were due from related parties.

Financial assets that are neither past due nor impaired

Information regarding trade and other receivables that are neither past due nor impaired is disclosed in Note 14. Cash and bank balances, and investment securities are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

(v) Market price risk

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

The Group is exposed to equity price risk arising from its investment in quoted equity instruments. The quoted equity instruments in Malaysia are listed on the Bursa Malaysia Securities Berhad, and are classified as held for trading. The Group does not have exposure on commodity price risk.

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

(v) Market price risk (cont'd)

The Group's objective is to manage investment returns and equity price risk by investing in companies operating in Malaysia which are publicly traded.

Sensitivity for equity price risk

At the reporting date, if the FTSE Bursa Malaysia KLCI had been 5% (2011: 5%) higher/lower, with all other variables held constant, the Group's profit net of tax would have been RM133,000 (2011: RM141,000) higher/lower, arising as a result of higher/lower fair value gains on investments in equity instruments held for trading.

26. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 July 2012 and 31 July 2011.

As disclosed in Note 18, a subsidiary of the Group is required by the Foreign Enterprise Law of the People's Republic of China ("PRC") to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above mentioned subsidiary for the financial year ended 31 July 2012.

The Group will continue to be guided by prudent financial policies of which gearing is an important aspect. The Group's policy is to maintain a sustainable gearing ratio to meet its existing requirements taking into consideration the facilities agreements entered into by the Group. The Group includes within net debt, loans and borrowings, less cash and bank balances. Capital includes to equity attributable to owners of the parent less statutory reserve fund.

		Group	
	Note	2012 RM'000	2011 RM'000
Loans and borrowings	19	62,226	86,842
Less: Cash and bank balances	16	(113,756)	(100,526)
Net cash		(51,530)	(13,684)
Equity attributable to owners of the parent		230,029	224,328
Less: Statutory reserve fund	18	(905)	(905)
		229,124	223,423
Capital and net cash		177,594	209,739

The Group is in a net cash position and as such there is no gearing ratio for the Group.

27. Segment information

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

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

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

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

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

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

	Burn-in, testing and electronic manufacturing RM'000	Investment holding RM'000	Eliminations RM'000	Consolidated RM'000
At 31 July 2012				
Revenue income				
Sales to external customers	236,940	–	–	236,940
Dividend income	–	417	–	417
Results				
Segment profit	11,853	881	–	12,734
Interest income				2,565
Finance costs				(3,318)
Profit before tax				11,981
Income tax expense				(4,598)
Profit net of tax				7,383
Other segment information				
Capital expenditure	40,126	–	–	40,126

27. Segment information (cont'd)

	Burn-in, testing and electronic manufacturing RM'000	Investment holding RM'000	Eliminations RM'000	Consolidated RM'000
At 31 July 2011				
Revenue income				
Sales to external customers	248,113	–	–	248,113
Dividend income	–	509	–	509
Results				
Segment profit	22,633	2,041	–	24,674
Interest income				1,298
Finance costs				(3,256)
Profit before tax				22,716
Income tax expense				(6,037)
Profit net of tax				16,679
Other segment information				
Capital expenditure	60,777	–	–	60,777

Geographical segments

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

	Revenue		Non-current assets	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Malaysia	188,438	205,733	90,526	94,216
People's Republic of China	48,502	42,380	59,747	68,552
	236,940	248,113	150,273	162,768

Non-current assets information presented above consist of property, plant and equipment.

Information about major customers

The Group's customer base includes one (2011: one) customer from burn-in, testing and electronic manufacturing segment, with whom transactions have exceeded 10% of the Group's revenue. In the financial year 2012, revenues generated from this customer amounted to approximately RM141,545,000 (2011: RM152,603,000).

28. Dividend

	Group 2012 RM'000	Group 2011 RM'000
Recognised during the financial year:		
First and final tax exempt dividend for 2011: 3 sen (2010: 3 sen) per ordinary share	1,290	1,290
Proposed but not recognised as a liability as at 31 July:		
First and final tax exempt dividend for 2012: 3 sen (2011: 3 sen) per ordinary share	1,290	1,290

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2012, of 3 sen on 43,014,500 ordinary shares, amounting to dividend payable of RM1,290,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2013.

29. Authorisation of financial statements for issue

The financial statements for the year ended 31 July 2012 were authorised for issue in accordance with a resolution of the directors on 20 September 2012.

30. Comparatives figures

The presentation and classification of items in current year financial statement have been consistent with the previous financial year except that certain comparative amounts have been reclassified to conform with current year's presentation to reflect a fairer presentation:

	As previously stated RM'000	Adjustments RM'000	As restated RM'000
Group			
Raw materials and consumables used	(57,359)	(8,904)	(66,263)
Changes in work-in-progress and finished goods	–	3,631	3,631
Other expenses	(56,457)	5,273	(51,184)

31. Supplementary information on the disclosure of realised and unrealised profit and loss

On 25 March 2010, Bursa Malaysia Securities Berhad ("Bursa Malaysia") issued a directive to all listed issuers pursuant to Paragraph 2.06 and 2.23 of Bursa Malaysia Main Market Listing Requirements. The directive requires all listed issuers to disclose the breakdown of the unappropriated profits or accumulated losses as at the end of the reporting period, into realised and unrealised profits or losses.

On 20 December 2010, Bursa Malaysia further issued another directive on the disclosure and prescribed format of presentation.

Pursuant to the directive, the amounts of realised and unrealised profits or losses included in the retained earnings of the Group and of the Company as at 31 July 2012 are as follows:

	Group		Company	
	2012 RM'000	2011 RM'000	2012 RM'000	2011 RM'000
Total retained earnings of the Company and its subsidiaries				
- realised	190,061	183,061	77,169	73,870
- unrealised	6,555	7,554	5,454	3,416
	196,616	190,615	82,623	77,286
Less: Consolidation adjustments	(26,644)	(23,514)	–	–
Retained earnings as per financial statements	169,972	167,101	82,623	77,286

The determination of realised and unrealised profits is based on the Guidance of Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, issued by Malaysian Institute of Accountants on 20 December 2010.

The disclosure of realised and unrealised profit above is solely for complying with the disclosure requirements stipulated in the directive of Bursa Malaysia and should not be applied for any other purpose.

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	:	RM50,000,000.00
Issued and paid-up capital	:	RM43,014,500
Type of shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Holdings	Total Holdings	%
5	Less than 100	200	0.00
183	100 to 1,000 shares	156,200	0.36
850	1,001 to 10,000 shares	3,524,750	8.20
204	10,001 to 100,000 shares	5,781,050	13.44
26	100,001 to less than 5% of issued shares	10,544,100	24.51
2	5% and above of issued shares	23,008,200	53.49
1,270	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

		Number of Shares Held			
	Name of Shareholders	Direct	%	Deemed Interest	%
1.	Sunright Limited	20,825,000	48.41	–	–
2.	Samuel Lim Syn Soo	–	–	20,825,000*	48.41
3.	Peter Collery	–	–	2,183,200	5.08

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

		Number of Shares Held			
	Name of Directors	Direct	%	Deemed Interest	%
1.	Samuel Lim Syn Soo	–	–	20,825,000*	48.41
2.	Kenneth Tan Teoh Khoon	–	–	–	–
3.	Lim Mee Ing	–	–	–	–
4.	Dato' Dr. Norraesah Haji Mohamad	7,500	0.02	–	–
5.	Tuan Haji Zakariah Bin Yet	–	–	–	–
6.	Yong Chee Hou	–	–	–	–

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

SHARES IN RELATED CORPORATION

The interest of Directors in related companies remains the same as disclosed in the Directors' Report for the year ended 31 July 2012.

Shareholders' Information
as at 1 October 2012

Shareholders' Information

as at 1 October 2012

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Citigroup Nominees (Asing) Sdn Bhd Exempt An for Citigroup Global Markets Inc (112256)	2,183,200	5.08
3.	Wong Tee Kim @ Wong Tee Fatt	2,150,000	4.99
4.	Tan Kong Hong Alex	2,057,500	4.78
5.	DB (Malaysia) Nominee (Asing) Sdn Bhd Exempt An for British and Malayan Trustees Limited (Yeoman 3-Rights)	1,475,000	3.43
6.	Teo Kwee Hock	488,100	1.13
7.	Tan Kim Hin	400,000	0.93
8.	JF Apex Nominees (Tempatan) Sdn Bhd Pledged securities account for Teo Siew Lai (Margin)	378,400	0.88
9.	Lim Khuan Eng	329,300	0.77
10.	Maybank Nominees (Tempatan) Sdn Bhd Heng Peng Heng	290,000	0.67
11.	Chau Tai Chuon	277,400	0.64
12.	Soon Hoe Chuan	250,200	0.58
13.	Follow Me Industries Sdn Bhd	227,800	0.53
14.	Tan Jin Tuan	202,000	0.47
15.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Lim Soon	200,000	0.46
16.	Mayban Nominees (Tempatan) Sdn Bhd Heng Peng Heng	197,000	0.46
17.	Lee Kok Hin	190,600	0.44
18.	CIMSEC Nominees (Asing) Sdn Bhd Exempt An for CIMB Securities (Singapore) Pte Ltd (Retail Client)	183,500	0.43
19.	HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd for Lim Mee Hwa	155,000	0.36
20.	Yong Loy Huat	135,500	0.32
21.	Wong Yoke Fong @ Wong Nyok Fing	135,000	0.31
22.	Lee Ah Beng	133,600	0.31
23.	Pui Cheng Tiong	125,300	0.29
24.	Teo Tin Lun	122,600	0.29
25.	HLIB Nominess (Tempatan) Sdn Bhd Hong Leong Bank Bhd for Tan Chong Meng	118,300	0.28
26.	Lim Gaik Bway @ Lim Chiew Ah	114,000	0.27
27.	CIMSEC Nominees (Temptatan) Sdn Bhd Pledged securities account for Lim Chen Yik (Penang CL)	106,000	0.25
28.	Tohtonku Sdn Berhad	102,000	0.24
29.	JF Apex Nominees (Tempatan) Sdn Bhd Pledged securities account for Teo Kwee Hock (Margin)	99,000	0.23
30.	Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim Kian Yap	98,400	0.23
	TOTAL	33,749,700	78.46

Group Properties
as at 31 July 2012

Location	Description / Existing use	Date of Last Revaluation	Tenure	Approximate Land Area / Built-up Area (sq m)	Approximate Age Of Building (Years)	Net Book Value (RM'000)
KESM Industries Berhad						
Lot 4, Kawasan MIEL Phase 1 Sungei Way Free Industrial Zone Jalan SS8/4 Selangor Darul Ehsan	Industrial land/ Factory and Office premises	28 Apr 2009	Leasehold for 99 years expiring on 30 Oct 2100	5,064 / Phase I – 2,315 Phase II – 3,169 Phase III – 3,345	Phase I – 16 Phase II – <14 Phase III – <15	3,010 / Phase I – 1,415 Phase II – 2,150 Phase III – 3,232
Factory Lot Nos. A5 and A6 Kawasan MIEL Batang Kali Phase II Selangor Darul Ehsan	Industrial land/ Factory and Office premises	28 Apr 2009	Leasehold for 60 years expiring on 13 Oct 2052	2,753 / 879	19	257 / 164
KESP Sdn. Bhd.						
Plot 253 Jalan Kampong Jawa Bayan Lepas Free Industrial Zone (Phase 3) Penang	Industrial land/ Factory and Office premises	16 Apr 2009	Leasehold for 60 years expiring on 7 Aug 2045	8,085 / 11,617	Phase I – 20 Phase II – 16 Phase III – 13	2,186 / 7,088
42-17-19 Desa Green Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	23	81
15-4-7 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	20	74
15-7-4 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	20	74
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	19	81
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	19	85
33-11-21 Taman Pekaka Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	16	88
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	19	89
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	19	89

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 41st Annual General Meeting of the Company will be held in Banyan & Casuarina Room, Ground Floor, SIME DARBY CONVENTION CENTRE, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Wednesday, 16 January 2013 at 10.30 a.m. for the following purposes: -

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 July 2012 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 2012. **Resolution 2**

3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2012. **Resolution 3**

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

   (a) Mr Yong Chee Hou **Resolution 4**
   (b) Mr Kenneth Tan Teoh Khoon **Resolution 5**

5. To re-appoint Messrs Ernst & Young as the Company's Auditors and to authorise the Board of Directors to fix their remuneration. **Resolution 6**

AS SPECIAL BUSINESS

To consider and if thought fit, pass the following Resolution as Special Resolution:-

6. **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 7**

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
29 October 2012

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 802, 8th 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.

5. Depositors whose name appear in the Record of Depositors as a 10 January 2013 shall be regarded as Member of the Company entitled to attend the 41st Annual General Meeting or appoint a proxy to attend and vote on his/her behalf.

Explanatory Notes on Special Business: -

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 Main Market 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 2012, if approved at the forthcoming Annual General Meeting, will be paid on 6 February 2013 to Depositors registered in the Record of Depositors on 18 January 2013. 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 18 January 2013, 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
29 October 2012

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Article No.	Existing Provision	New Provision
2- Definition for "Authorised Nominees"	A person who is authorised to act as nominee as specified under the Rules.	Deleted.
2- Definition for "Authorised Nominees"	New Provision	"Exempt Authorised Nominee" refers to an authorised nominee defined under the Central Depositories Act which is exempted from compliance with the provisions of subsection 25A(1) of the Central Depositories Act.
76 (a)	<u>Proxies for each Securities Account</u> Where a member of the Company is an Authorised Nominee as defined under the Central Depository Act, he may appoint at least one proxy in respect of each securities account he holds with ordinary shares of the Company standing to the credit of the said Securities Account.	<u>Appointment of multiple proxies</u> Where a member of the company is an exempt authorised nominee which holds ordinary shares in the company for multiple beneficial owners in one securities account ("omnibus account"), there is no limit to the number of proxies which the exempt authorised nominee may appoint in respect of each omnibus account it holds.

Appendix A

Proxy Form

I / We ____ (Full Name in Block Letters)

NRIC/Passport No.: ______________________ of ________________________________

____ (Address)

being a member / members of KESM Industries Berhad hereby appoint

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

and / or (delete as appropriate)

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

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the 41st Annual General Meeting of the Company to be held at Banyan & Casuarina Room, Ground Floor, SIME DARBY CONVENTION CENTRE, 1A, Jalan Bukit Kiara 1, 60000 Kuala Lumpur, Malaysia on Wednesday, 16 January 2013 at 10.30 a.m. and at any adjournment thereof.

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

No.	Resolutions	For*	Against*
1.	Receipt of Audited Financial Statements together with the Reports of the Directors and Auditors thereon		
2.	Approval of first and final dividend		
3.	Approval of Directors' fees		
4.	Re-election of Mr Yong Chee Hou as Director		
5.	Re-election of Mr Kenneth Tan Teoh Khoon as Director		
6.	Re-appointment of Auditors		
7.	Approval of proposed amendments to the Articles of Association		

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

Total Number of Shares Held	

Signed this ___________ day of ___________ 2012 / 2013

____

Signature/Common Seal of Shareholder(s)

Notes: -

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.

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.

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.

The instrument appointing a proxy must be deposited at the Registered Office at 802, 8th 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)
802, 8th 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