

(13022-A)

KESM INDUSTRIES BERHAD

ANNUAL REPORT

09



GETTING
READY



Ensuring device and system reliability for a world of electronic products

A Member Of



09

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Chairman's Statement

“We have conscientiously and consistently worked towards our goal of building KESM into a world-class service provider and we are confident that the groundwork in laying a strong foundation will propel KESM into a world-class company.”

Samuel Lim Syn Soo

Executive Chairman & CEO

Dear fellow shareholders,

2009 was a tough year as the semiconductor market took a nose dive again, because of the global economic and financial crises, from banking woes to inventory cuts which resulted in two years of negative growth – the first in the history of the semiconductor industry.

Despite these challenges, the Group achieved a profit after tax of RM11.3 million based on revenue of RM169.3 million, which slid from RM197.5 million last year. We are pleased that although the external operating environment was difficult, our positive results demonstrated success in our ongoing efforts to reinforce KESM's strong foundation and maintain our leading position in the market. We increased cash and cash equivalents to RM88.9 million from RM65.3 million a year ago. With a strong cash reserve, we continue to align the Company on our consistent framework of three key elements – **Growing Capabilities**, **Increasing Customers** and **Building Operational Excellence**, in getting ready for the market upturn.

MAINTAINING OUR LEADERSHIP

Our achievement in 2009 was a product of solidarity, dedication and commitment of our employees. The management acted decisively and swiftly at the beginning of the crises. We took control of costs, without compromising service quality to our customers and we streamlined

our operations without afflicting too much hardship on our employees. Under such adverse conditions, the Group responded remarkably well in achieving profitability.

Even when the semiconductor chips were down, the race in the semiconductor industry continued. We were kept busy. Our customers pursued their development of new products to make their chips smaller and cheaper, as well as adding more features. In the process, we were engaged in preparing to “burn-in and test” their products. They are now getting ready to launch new devices as the market is turning around.

As the leader in the burn-in and test service industry, KESM continually designs programs to improve operational excellence. Our “best-in-class” facilitization has gained recognition from our customers who are U.S. Fortune 500 companies and continue to make us their strategic partners. We gained three major European customers. We are focusing on the European market to bring in European world-class manufacturers. Our investment in China is turning around, and we are expecting steady improvements.

We are ever ready to support our customers’ growing need for new products and to maintain our lead in the market place. In preparation for expansion, we are recruiting and grooming new talents. More purchases of advanced test equipment may be expected as demand for a new generation of devices increases.

KESM provides a service to stress microchips by a process known as “burn-in”. The “fittest” chips are “tested” and returned to our customers for installation into electronic products such as personal computers, automobiles, mobile phones etc. Every electronic device needs to be tested. This on-going demand to ensure functionality and total reliability of the chip forms the basis of our business.

GETTING READY FOR 2010

We are getting ready to work closely with our new customers ensuring that we meet their expectations and continually re-engaging our workforce on training of our quality culture. As we begin the new financial year, market sentiment has been positive. Our customers are reporting better results. The aggressive U.S. stimulus measures have helped the automotive industry to turn around. The phone and personal computers are picking up. The semiconductor industry is forecasting 10.3 percent growth in 2010, with revenues reaching US\$233 billion.

Chairman's Statement

Can this positive sign of recovery be sustained? By all above indications, growing investment opportunities and progressive recovery of the global financial market, KESM expects 2010 to be a promising year.

Since its listing in 1994, KESM has remained profitable. This is a formidable achievement given the cyclical impact of our industry! We have conscientiously and consistently worked towards our goal of building KESM into a world-class service provider and we are confident that the groundwork in laying a strong foundation will propel KESM into a world-class company. The competencies we have built into KESM together with our technology leadership and operational efficiency will differentiate us as the leading semiconductor service company with a good track record.

MAINTAINING OUR DIVIDEND PAYOUT

The Board has recommended a first and final tax exempt dividend of 3 sen per share. The proposed first and final dividend, if approved by shareholders at the forthcoming Annual General Meeting, will be paid on 2 February 2010.

SINCERE APPRECIATION

In closing, I want to sincerely thank our employees for their outstanding commitment and efforts. I thank our customers for entrusting us with their business and most importantly, I thank you, our shareholders, investors, bankers and business partners for your confidence in KESM.

Samuel Lim Syn Soo

Executive Chairman

6 October 2009

Corporate Information

BOARD OF DIRECTORS

Mr. Samuel Lim Syn Soo

Executive Chairman & Chief Executive Officer

Mr. Kenneth Tan Teoh Khoon

Executive Director

Ms. Lim Mee Ing

Non-Independent Non-Executive Director

Dato' Dr. Norraesah Haji Mohamad

Independent Non-Executive Director

Encik Ahmad Riza Bin Basir

Independent Non-Executive Director

Tuan Haji Zakariah Bin Yet

Non-Independent Non-Executive Director

Mr. Yong Chee Hou

Independent Non-Executive Director

AUDIT COMMITTEE

Dato' Dr. Norraesah Haji Mohamad

Chairman

Encik Ahmad Riza Bin Basir

Member

Mr. Yong Chee Hou

Member

COMPANY SECRETARIES

Ms. Leong Oi Wah (MAICSA 7023802)

Ms. Tai Li Ching (MAICSA 7053542)

REGISTERED OFFICE

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

REGISTRARS

Symphony Share Registrars Sdn Bhd

Level 26, Menara Multi Purpose Capital Square
No. 8, Jalan Munshi Abdullah
50100 Kuala Lumpur
MALAYSIA
Tel : 03-2721 2222
Fax: 03-2721 2530/31
Email: ssrs@symphony.com.my

AUDITORS

Ernst & Young

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

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad

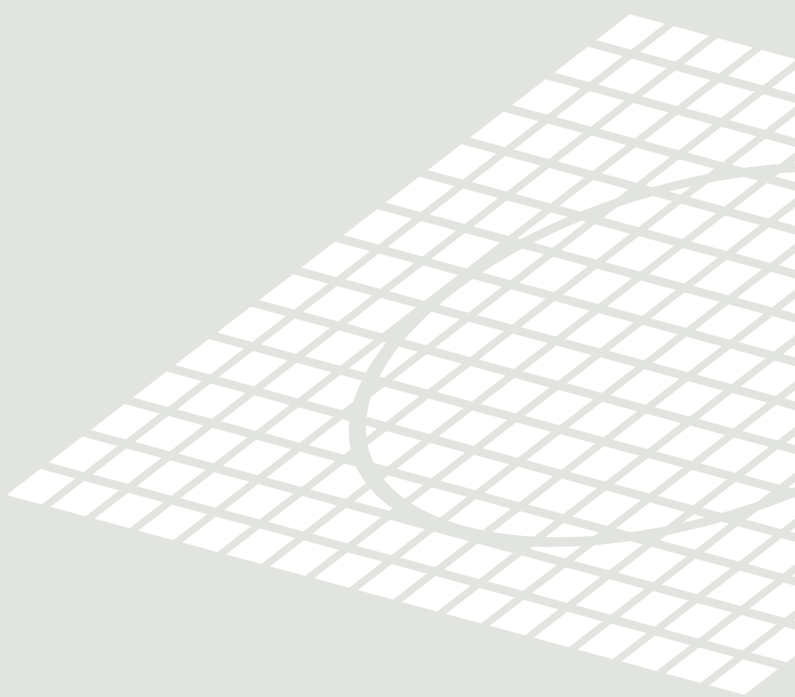
Main Market

STOCK NAME

KESM

BURSA SECURITIES STOCK NO.

9334



Board of Directors



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

Mr. Samuel Lim Syn Soo

Aged 55, Singaporean

Non-Independent Executive Director

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

Mr. Lim holds a Diploma in Industrial Engineering (Canada) and has more than 37 years of experience in the semiconductor and electronics industry. Prior to the establishing of KESM Industries Berhad, Mr. Lim held

senior positions including engineering, manufacturing and marketing in U.S. multinational companies. As one of the local pioneers in the semiconductor industry, Mr. Lim received 4 U.S. patents in recognition of his inventions in various solutions involving "Burn-in and test". He also sits on the Board of all the companies in Sunright Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited.

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

	Direct Holdings	Indirect Holdings
Ordinary shares of RM1.00 each	Nil	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)
Share options of RM1.00 each	216,800	Nil

Mr. Kenneth Tan Teoh Khoon

Aged 52, Singaporean

Non-Independent Executive Director

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

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

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

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

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

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

Board of Directors

Ms. Lim Mee Ing

Aged 58, Singaporean

Non-Independent Non-Executive Director

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

Ltd from September 1982 to March 1990. She was a member of the Committee on Securities Industry of the Association of Banks in Singapore from September 1987 to March 1990.

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

Dato' Dr. Norraesah Haji Mohamad

Age 61, 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 36 years of working experience in banking, consultancy and international trade and commerce.

Dato' Dr. Norraesah worked with the International Trade Division of the Ministry of Trade and Industry (now known as the Ministry of International Trade and Industry) from 1972 to 1985, starting as an Assistant Director and later promoted to Senior Assistant Director. Between October 1987 to September 1988, she was with the Finance Division of the Federal Treasury holding the post of Principal Assistant Secretary. From October 1988 to October 1990, she was the Communication Manager of

ESSO Production Malaysia Inc. and subsequently, took the position of Managing Director with a consultant firm providing financial advisory services. From 1991 to 1998, she was appointed as the Chief Representative of Credit Lyonnais Bank in Malaysia. She assumed the position of Chairman of Bank Rakyat from 2000 to 2003.

She is currently the Non-Executive Chairman of Penang Bridge Sdn. Bhd., Executive Chairman of MyEG Services Berhad and Embunaz Ventures Sdn Bhd and also sits on the Boards of Adventa Berhad, Ya Horng Electronic (M) Berhad, Protasco Berhad and SBC Corporation Berhad, all listed on Bursa Malaysia Securities Berhad, and several other private limited companies in Malaysia.

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

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

Encik Ahmad Riza Bin Basir

Aged 49, Malaysian

Independent Non-Executive Director

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

Inn), London in 1984 and was called to the Malaysian Bar in 1986. He is the Director of Jerneh Asia Berhad, Jerneh Insurance Berhad, Manulife Holdings Berhad, Manulife Insurance Berhad and United Plantations Berhad. He also sits on the Boards of several other private limited companies in Malaysia.

Tuan Haji Zakariah Bin Yet, AMS, AMN

Aged 54, Malaysian

Non-Independent Non-Executive Director

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

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

In addition, he has wide experience in the private sector, holding important positions in two subsidiaries of Lembaga Tabung Haji which among others were as the Deputy Chief Executive Officer of *TH* Global Services Sdn. Bhd. from 16 June 2001 to 31 August 2002; Senior

General Manager and Acting Chief Executive Officer of *TH* Travel & Services Sdn. Bhd. from 1 September 2002 to 16 August 2004. He was also a Board member at *Urus Bina* Sdn Bhd from 1994 to 1995.

Currently, Tuan Haji Zakariah is attached at Lembaga Tabung Haji as the General Manager of Haji Management Department.

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

Mr. Yong Chee Hou

Aged 53, Malaysian

Independent Non-Executive Director

Mr. Yong was appointed to the Board on 11 January 2002 and is also a member of the Audit Committee of the Company. He graduated from the University of Hull, United Kingdom with a Bachelor of Science (Hons) Degree in Economics and Accounting and qualified as

a member of the Institute of Chartered Accountants in England and Wales. He is a member of the Malaysian Institute of Accountants. He has spent over 9 years in the accountancy profession. Mr. Yong is also a director of a private limited company.

Other Information on Directors

1. FAMILY RELATIONSHIP

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

2. CONFLICT OF INTEREST

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

3. CONVICTIONS OF OFFENCES

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

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2009

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	4 out of 5	80
Encik Ahmad Riza Bin Basir	5 out of 5	100
Tuan Haji Zakariah Bin Yet	4 out of 5	80
Mr. Yong Chee Hou	4 out of 5	80

Audit Committee's Report

The Audit Committee ("the Committee") of KESM Industries Berhad is pleased to present the Audit Committee's Report for the financial year ended 31 July 2009 ("FY 2009").

MEMBERS AND TERMS OF REFERENCE

The Committee currently comprises the following directors: -

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

and is governed by the following Terms of Reference:-

1. Composition / Quorum

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

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

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

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

2. Terms of Membership

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

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

3. Chairman

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

Audit Committee's Report

4. Secretary

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

5. Meetings

The Committee shall meet at least four (4) times a year.

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

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

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

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

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

6. Attendance at Meetings

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

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

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

7. Resolutions in Writing

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

Audit Committee's Report

8. Authority and Rights

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

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

9. Duties

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

The duties of the Committee shall be:

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

Audit Committee's Report

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

10. Reporting Procedure

- (1) The Secretary shall be responsible for keeping the minutes of meeting of the Committee, circulating them to the members, the Board and the auditors who attended the meeting, and for ensuring compliance with Bursa Securities requirements. Such minutes shall be signed by the Chairman of the meeting at which the proceedings were held or by the Chairman of the next succeeding meeting.
- (2) The Committee shall submit a report to the Board as at the end of each financial year within 3 months from the said date to the Board for inclusion in the Company's annual report. The report of the Committee shall comprise paragraphs 15.15(3)(a) to (e) of the Listing Requirements of Bursa Securities.

Audit Committee's Report

MEETINGS AND ATTENDANCE

The Committee met five (5) times in FY 2009. Other Board members, senior management staff and the company secretary attended the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

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

Name of Member	Designation	No. of Meetings attended	Percentage %
Dato' Dr. Norraesah Haji Mohamad	Chairman	4	80
Mr. Kenneth Tan Teoh Khoo*	Member	2	100*
Encik Ahmad Riza Bin Basir	Member	5	100
Mr. Yong Chee Hou	Member	4	80

* Resigned from the Committee on 31 January 2009.

During FY 2009, the Committee did not convene meetings with the external or internal auditors excluding the attendance of other directors and employees as this was deemed not necessary.

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During FY 2009, the Committee: -

1. reviewed the external auditors' reports in relation to the audit for the year ended 31 July 2008.
2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2008 to be presented to the Board of Directors for approval.
3. recommended the re-appointment of the external auditors.
4. reviewed, discussed and recommended the unaudited quarterly results of the Group to be presented to the Board of Directors for approval.
5. reviewed and recommended recurrent related party transactions of the Group to be presented to the Board of Directors for ratification and approval.
6. reviewed and approved the Internal Audit Plan.
7. reviewed and discussed the internal auditor's reports.
8. reviewed the external auditor's report on the Statement on Internal Control ("SIC") in respect of the financial year ended 31 July 2008 and presented the SIC to the Board of Directors for approval.
9. reviewed the Committee's Report in respect of the financial year ended 31 July 2008 and presented to the Board of Directors for approval.
10. reviewed the revised Terms of Reference of the Audit Committee and presented the revisions to the Board of Directors for approval.
11. reviewed the competency and effectiveness of the internal auditors.
12. discussed the Audit Plan with the External Auditors.



Audit Committee's Report

INTERNAL AUDIT ACTIVITIES

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

The total cost incurred for the Group's internal audit function amounted to approximately RM66,000.

EMPLOYEES SHARE OPTION SCHEME ("ESOS")

In FY 2009, there was no share option granted to the employees. Hence, no review was made by the Committee.

Corporate Governance Statement

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

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

BOARD OF DIRECTORS

Board Composition and Balance

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

As at the date of this report, the Board comprises seven (7) directors, five (5) of whom are non-executive. Of the non-executive directors, three (3) are independent. The profiles of each Director and other relevant information are set out in the “Board of Directors” and “Other Information on Directors” sections of this Annual Report.

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

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

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

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

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

Re-election

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

Board Meetings

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

Corporate Governance Statement

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

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

DIRECTORS’ TRAINING

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

In financial year 2009, the Directors attended 2 in-house trainings conducted by the Secretary in respect of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. Other than the aforesaid in-house trainings, the following directors had also attended the following training programs:

Director	Mode of Training	Title of Training	Duration of Training
Dato’ Dr Norraesah Haji Mohamad	Seminar	The Inside Story of the Annual Report – What you need to know	½ day
Ahmad Riza Bin Basir	Seminar	General outlook on “soft” commodities and the distortion of funds on the fundamentals of supply and demand	1 day
	Seminar	An understanding on the general situation of high prices of petroleum products and the ins and outs of the oil industry	
	Seminar	FFM meat processing project	
	Training	Financial Institution Directors Education Programme (by Bank Negara Malaysia)	8 days
	Seminar	Recent developments in Malaysia Tax Laws	½ day
	Seminar	Amendments to the Companies Act 1965 pertaining to Directors’ duties & transactions involving directors	
Tuan Haji Zakariah Bin Yet	Seminar	Risk Management (Risk Matrix)	3 days
	Seminar	Seminar of World Class Organisation	3 days
	Training	Training for Security Coverage in Management	2 days
	Training	TH Corporate Directors Training Programme	2 days

From time to time during the normal proceedings of the meetings, the Directors also received updates and briefings, particularly on regulatory and industry developments, relevant new laws and changes to the accounting standards, from the management, company secretary and auditors.

Corporate Governance Statement

SUPPLY OF INFORMATION

The Chairman ensures that all Directors have full and unrestricted access to timely information, necessary in the furtherance of their duties, 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 5 of the audited financial statements included in this Annual Report. The Code recommends detailed disclosure to be made for each director's remuneration. However, the Board is of the view that the transparency and accountability are not compromised by the band disclosure as permitted in the Listing Requirements of Bursa Securities.

AUDIT COMMITTEE

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

Corporate Governance Statement

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.

Corporate Governance Statement

RELATIONSHIP WITH SHAREHOLDERS

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

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

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

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

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

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF THE CODE

Apart from the dual roles held by the Executive Chairman/CEO and the 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 2009.

This statement is made in accordance with the resolution of the Board of Directors at its meeting held on 17 September 2009.

Other Information

During the financial year under review,

1. SHARE BUYBACKS

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

2. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES

No options were exercised pursuant to the Company's Employees Share Option Scheme.

The Company did not issue any warrants or convertible securities.

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

The Company did not sponsor any ADR or GDR programme.

4. IMPOSITION OF SANCTIONS AND/OR PENALTIES

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

5. NON-AUDIT FEES

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

6. PROFIT ESTIMATE, FORECAST OR PROJECTION

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

7. PROFIT GUARANTEES

There were no profit guarantees received by the Company.

8. MATERIAL CONTRACTS

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

9. CONTRACTS RELATING TO LOANS

There were no contracts relating to loans by the Company.

10. REVALUATION POLICY ON LANDED PROPERTIES

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

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

Statement on Internal Control

INTRODUCTION

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

BOARD'S DISCLOSURE ON RISK MANAGEMENT

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and that the process is regularly reviewed by the Board and accords with The Statement on Internal Control – Guidance For Directors of Public Listed Companies.

BOARD'S RESPONSIBILITY

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

KEY ELEMENTS OF INTERNAL CONTROL

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

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

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

The annual internal audits therefore provide the Board with an independent assessment on the adequacy, efficiency and effectiveness of the Group's internal control systems in anticipating potential risk exposures over key business systems and processes and in controlling the proper conduct of business within the Group.

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



Statement on Internal Control

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

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

CONCLUSION

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

This statement is made in accordance with the resolution of the Board of Directors dated 17 September 2009.

Directors' Report

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2009.

Principal activities

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

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

Results

	Group RM'000	Company RM'000
Profit for the year	11,283	7,938
Attributable to:		
Equity holders of the Company	9,757	7,938
Minority interests	1,526	-
	<u>11,283</u>	<u>7,938</u>

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

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

Dividend

On 23 January 2009, the Company paid a first and final tax exempt dividend of 3 sen (2008: 3 sen) per share amounting to RM1,290,015 (2008: RM1,290,015), as proposed in the Directors' report of the previous financial year.

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2009, of 3 sen per ordinary shares amounting to RM1,290,435 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained profits in the financial year ending 31 July 2010.

Directors

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

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

Directors' Report

Directors' benefits

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments and fees received or due and receivable by the Directors as shown in Note 5 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, except as disclosed in Note 24 to the financial statements.

Directors' interests

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

	Number of ordinary shares of RM1.00 each			
	At 1.8.2008	Acquired	Sold	At 31.7.2009
Dato' Dr Norraesah Haji Mohamad				
- Direct interest	7,500	-	-	7,500
Samuel Lim Syn Soo				
- Deemed interest	20,825,000	-	-	20,825,000

	Option Price	Options to subscribe for ordinary shares of RM1.00 each			At 31.7.2009
		At 1.8.2008	Granted	Exercised	
Samuel Lim Syn Soo					
First Option*	RM2.19	50,000	-	-	50,000
Second Option*	RM2.46	50,000	-	-	50,000
Third Option*	RM2.34	50,000	-	-	50,000
Fourth Option	RM3.10	34,000	-	-	34,000
Fifth Option	RM2.50	20,000	-	-	20,000
Sixth Option	RM1.93	12,800	-	-	12,800
Kenneth Tan Teoh Khoon					
First Option*	RM2.19	50,000	-	-	50,000
Second Option*	RM2.46	50,000	-	-	50,000
Third Option*	RM2.34	50,000	-	-	50,000
Fourth Option	RM3.10	34,000	-	-	34,000
Fifth Option	RM2.50	20,000	-	-	20,000
Sixth Option	RM1.93	12,800	-	-	12,800

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

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

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

Directors' Report

Employees share option scheme ("ESOS")

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

The maximum number of new shares which may be subscribed on the exercise of options granted under the ESOS shall not, in aggregate, exceed fifteen percent (15%) of the total issued and paid-up ordinary share capital of the Company at any point of time during the existence of the scheme.

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

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

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

The particulars of the options granted to eligible employees as at 31 July 2009 are as follows:

	Date of Grant	Option Price RM	Number of Options				Total Available
			Granted	Accepted	Exercised	Lapsed	
First Option*	6/12/2000	2.19	1,001,000	997,000	(391,500)	(203,000)	402,500
Second Option*	17/4/2002	2.46	462,000	461,000	(40,000)	(43,500)	377,500
Third Option*	24/9/2002	2.34	460,000	456,000	(38,000)	(73,500)	344,500
Fourth Option	23/4/2004	3.10	312,800	297,800	-	(45,000)	252,800
Fifth Option	23/3/2005	2.50	168,000	151,000	-	(29,000)	122,000
Sixth Option	15/11/2005	1.93	160,000	138,200	(9,000)	(32,000)	97,200
			<u>2,563,800</u>	<u>2,501,000</u>	<u>(478,500)</u>	<u>(426,000)</u>	<u>1,596,500</u>

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

Other statutory information

- (a) Before the income statements and balance sheets of the Group and of the Company were made out, the Directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there are no known bad debts and that no provision for doubtful debts was necessary; and
 - (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

Directors' Report

Other statutory information (cont'd.)

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

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 28 September 2009.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

Statement by Directors

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

We, Samuel Lim Syn Soo and Kenneth Tan Teoh Khoon, being two of the Directors of KESM Industries Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 32 to 73 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 2009 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 28 September 2009.

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 financial statements set out on pages 32 to 73 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 5 October 2009

Kenneth Tan Teoh Khoon

Before me,
Chia Choon Yang
Notary Public

Independent Auditors' Report

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

Report on the financial statements

We have audited the financial statements of KESM Industries Berhad, which comprise the balance sheets as at 31 July 2009 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 73.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with Financial Reporting Standards and the Companies Act, 1965 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2009 and of their financial performance and cash flows of the Group and of the Company for the year then ended.

Report on other legal and regulatory requirements

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

- (a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries have been properly kept in accordance with the provisions of the Act.
- (b) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the financial statements of the Company are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.
- (c) The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment required to be made under Section 174(3) of the Act.

Independent Auditors' Report

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

Other matters

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

Ernst & Young

AF: 0039

Chartered Accountants

Kuala Lumpur, Malaysia

28 September 2009

Wong Lai Wah

No. 1956/04/11(J)

Chartered Accountant

Income Statements

for the year ended 31 July 2009

	Note	Group		Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Revenue	3	169,315	197,504	41,862	55,132
Other operating income		3,100	2,737	3,741	2,595
Total operating income		172,415	200,241	45,603	57,727
Raw materials and consumables used		(44,108)	(50,339)	(692)	(836)
Staff costs	4	(34,460)	(42,951)	(13,118)	(19,440)
Depreciation of property, plant and equipment	11	(46,944)	(44,690)	(9,583)	(8,142)
Impairment of property, plant and equipment	11	(177)	(354)	(177)	(354)
Amortisation of prepaid land lease payments	12	(142)	(142)	(78)	(78)
Other operating expenses		(35,244)	(41,061)	(16,666)	(18,325)
Profit from operating activities	5	11,340	20,704	5,289	10,552
Interest income	6	1,490	1,618	1,284	1,091
Finance costs	7	(2,382)	(1,631)	(488)	(129)
Profit before tax		10,448	20,691	6,085	11,514
Income tax	8	835	14,685	1,853	8,585
Profit for the year		11,283	35,376	7,938	20,099
Attributable to:					
Equity holders of the Company		9,757	30,661	7,938	20,099
Minority interest		1,526	4,715	-	-
		11,283	35,376	7,938	20,099
Earnings per share attributable to equity holders of the Company					
- Basic	9	22.7 sen	71.3 sen		
- Diluted	9	22.7 sen	69.4 sen		
Dividend per share in respect of the year	10			3.00 sen	3.00 sen

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

Balance Sheets

as at 31 July 2009

	Note	Group		Company	
		2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Assets					
Non-current assets					
Property, plant and equipment	11	123,324	144,006	31,444	34,221
Prepaid land lease payments	12	5,882	6,024	3,502	3,580
Subsidiary companies	13	-	-	21,573	21,573
Deferred tax assets	22	9,174	8,208	2,131	921
		<u>138,380</u>	<u>158,238</u>	<u>58,650</u>	<u>60,295</u>
Current assets					
Inventories	14	13,159	8,045	177	191
Trade and other receivables	15	44,356	38,943	39,064	46,398
Other investments	16	8,213	6,243	8,213	6,243
Cash and bank balances	17	80,692	59,016	25,836	13,380
Tax recoverable		1,001	-	662	-
		<u>147,421</u>	<u>112,247</u>	<u>73,952</u>	<u>66,212</u>
Total assets		<u>285,801</u>	<u>270,485</u>	<u>132,602</u>	<u>126,507</u>
Equity and liabilities					
Equity attributable to equity holders of the company					
Share capital	18	43,015	43,015	43,015	43,015
Reserves	19	158,520	143,303	74,367	65,411
		<u>201,535</u>	<u>186,318</u>	<u>117,382</u>	<u>108,426</u>
Minority interest		15,971	14,445	-	-
Total equity		<u>217,506</u>	<u>200,763</u>	<u>117,382</u>	<u>108,426</u>
Non-current liabilities					
Borrowings	20	18,215	12,094	3,109	2,016
Deferred tax liabilities	22	4,351	874	2,516	-
		<u>22,566</u>	<u>12,968</u>	<u>5,625</u>	<u>2,016</u>
Current liabilities					
Trade and other payables	23	25,350	39,531	5,534	12,144
Borrowings	20	20,379	14,971	4,061	1,638
Taxation		-	2,252	-	2,283
		<u>45,729</u>	<u>56,754</u>	<u>9,595</u>	<u>16,065</u>
Total liabilities		<u>68,295</u>	<u>69,722</u>	<u>15,220</u>	<u>18,081</u>
Total equity and liabilities		<u>285,801</u>	<u>270,485</u>	<u>132,602</u>	<u>126,507</u>

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

Statements of Changes in Equity

for the year ended 31 July 2009

	Attributable to equity holders of the Company						Total equity RM'000
	Non-distributable			Distributable			
Group	Share capital (Note 18) RM'000	Share premium (Note 19) RM'000	Foreign currency translation reserve (Note 19) RM'000	Asset revaluation reserve (Note 19) RM'000	Retained profits (Note 19) RM'000	Minority interest RM'000	Total equity RM'000
At 1 August 2007	43,001	649	-	7,433	104,947	9,730	165,760
Exchange difference arising on consolidation	-	-	664	-	-	-	664
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	30,661	4,715	35,376
Dividend (Note 10)	-	-	-	-	(1,290)	-	(1,290)
Effect on deferred tax on asset revaluation reserve relating to reduction in tax rate	-	-	-	225	-	-	225
Issue of ordinary shares pursuant to ESOS	14	14	-	-	-	-	28
At 31 July 2008	43,015	663	664	7,658	134,318	14,445	200,763
Exchange difference arising on consolidation	-	-	1,493	-	-	-	1,493
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	9,757	1,526	11,283
Dividend (Note 10)	-	-	-	-	(1,290)	-	(1,290)
Revaluation increase of buildings	-	-	-	5,257	-	-	5,257
At 31 July 2009	43,015	663	2,157	12,915	142,785	15,971	217,506

Statements of Changes in Equity

for the year ended 31 July 2009

	Non-distributable			Distributable		Total RM'000
	Share capital (Note 18) RM'000	Share premium (Note 19) RM'000	Asset revaluation reserve (Note 19) RM'000	Merger relief reserve (Note 19) RM'000	Retained profits (Note 19) RM'000	
Company						
At 1 August 2007	43,001	649	2,124	1,215	42,483	89,472
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	20,099	20,099
Dividend (Note 10)	-	-	-	-	(1,290)	(1,290)
Effect on deferred tax on asset revaluation reserve relating to reduction in tax rate	-	-	117	-	-	117
Issue of ordinary shares pursuant to ESOS	14	14	-	-	-	28
At 31 July 2008	43,015	663	2,241	1,215	61,292	108,426
Profit for the year, representing total recognised income and expense for the year	-	-	-	-	7,938	7,938
Dividend (Note 10)	-	-	-	-	(1,290)	(1,290)
Revaluation increase of buildings	-	-	2,308	-	-	2,308
At 31 July 2009	43,015	663	4,549	1,215	67,940	117,382

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

Cash Flow Statements

for the year ended 31 July 2009

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash flows from operating activities				
Profit before tax	10,448	20,691	6,085	11,514
Adjustments for:				
Depreciation of property, plant and equipment	46,944	44,690	9,583	8,142
Impairment of property, plant and equipment	177	354	177	354
Amortisation of prepaid land lease payments	142	142	78	78
Property, plant and equipment written off	-	13	-	13
Gain on disposal of property, plant and equipment	(16)	(170)	-	(2)
Gain on disposal of quoted shares	(660)	(1,589)	(660)	(1,589)
Fair value adjustment on quoted shares	-	57	-	57
Net unrealised (gain)/loss on foreign exchange	(2,007)	(666)	(2,083)	9
Dividend Income	(219)	(229)	(219)	(229)
Interest income	(1,490)	(1,618)	(1,284)	(1,091)
Interest expense	2,382	1,631	488	129
Operating profit before working capital changes	55,701	63,306	12,165	17,385
Changes in working capital:				
Inventories	(5,114)	3,198	14	(14)
Receivables	(5,413)	4,943	7,334	(26,762)
Payables	(12,472)	2,577	(4,825)	4,185
Cash generated from/(used in) operations	32,702	74,024	14,688	(5,206)
Tax paid	(1,569)	(4,413)	(556)	(1,639)
Interest paid	(2,382)	(1,631)	(488)	(129)
Interest received	1,490	1,618	1,284	1,091
Net cash generated from/(used in) operating activities	30,241	69,598	14,928	(5,883)
Cash flows from investing activities				
Purchase of investment in quoted shares	(2,723)	(5,166)	(2,723)	(5,166)
Proceeds from disposal of quoted shares	1,413	2,266	1,413	2,266
Dividend income	219	229	219	229
Purchase of property, plant and equipment	(16,401)	(86,100)	(3,607)	(15,596)
Proceeds from disposal of property, plant and equipment	107	178	-	2
Investment in a subsidiary	-	-	-	(16,858)
Net cash used in investing activities	(17,385)	(88,593)	(4,698)	(35,123)

Cash Flow Statements

for the year ended 31 July 2009

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	-	28	-	28
Payments of hire purchase obligations	(2,781)	(1,904)	(1,181)	(382)
Repayments of term loans	(17,625)	(16,120)	(2,173)	(809)
Drawdown of term loans	31,935	7,028	6,870	-
Dividend paid	(1,290)	(1,290)	(1,290)	(1,290)
Net cash generated from/(used in) financing activities	10,239	(12,258)	2,226	(2,453)
Net change in cash and cash equivalents	23,095	(31,253)	12,456	(43,459)
Effects of foreign exchange rate changes	(1,419)	721	-	-
Cash and cash equivalents at beginning of year	59,016	89,548	13,380	56,839
Cash and cash equivalents at end of year (Note 17)	80,692	59,016	25,836	13,380

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

Notes to the Financial Statements

- 31 July 2009

1. Corporate information

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

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

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

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 28 September 2009.

2. Significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company are prepared under the historical cost convention, modified to include the revaluation of certain property, plant and equipment and comply with Financial Reporting Standards ("FRSs") and the Companies Act, 1965 in Malaysia.

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

2.2 Summary of significant accounting policies

(a) Subsidiaries and basis of consolidation

(i) Subsidiaries

Subsidiaries are entities over which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity.

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

(ii) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the balance sheet date. The financial statements of the subsidiaries are prepared for the same reporting date as the Company.

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. In preparing the consolidated financial statements, intragroup balances, transactions and unrealised gains or losses are eliminated in full. Uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances.

Notes to the Financial Statements

- 31 July 2009

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

(a) Subsidiaries and basis of consolidation (cont'd.)

(ii) Basis of consolidation (cont'd.)

Acquisitions of subsidiaries are accounted for using the purchase method. The purchase method of accounting involves allocating the cost of the acquisition to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of an acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition.

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

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the subsidiaries' equity since then.

(b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

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

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

(ii) Interest income

Interest income is recognised on an accrual basis.

(iii) Dividend income

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

(iv) Rental income

Rental income is recognised over the period of tenancy.

(c) Property, plant and equipment and depreciation

All items of property, plant and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charge to the income statement during the financial period in which they are incurred.

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(c) Property, plant and equipment and depreciation (cont'd.)

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

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

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

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

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

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

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

Buildings	5% - 10.435%
Leasehold improvements	20%
Plant, machinery and test equipment	20% - 66.67%
Motor vehicles	20%
Office equipment, furniture and fittings and computers	10% - 33.33%

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

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

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

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(d) Impairment of non-financial assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash-generating unit ("CGU") to which the asset belongs to.

An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows 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 considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in profit or loss in the period in which it arises. An impairment loss for an asset is reversed if, and 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. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

(e) Inventories

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

(f) Financial instruments

Financial instruments are recognised in the balance sheet when the Group has become a party to the contractual provisions of the instrument.

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

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(f) Financial instruments (cont'd.)

(i) Short term investments

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

(ii) Receivables

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

(iii) Cash and cash equivalents

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

(iv) Payables

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

(v) Interest-bearing borrowings

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

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

(vi) Equity instruments

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

(g) Leases

(i) Classification

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Leases of land and buildings are classified as operating or finance leases in the same way as leases of other assets and the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. All leases that do not transfer substantially all the risks and rewards are classified as operating lease.

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(g) Leases (cont'd.)

(ii) Finance leases - The Group as lessee

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

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

The depreciation policy for leased assets is in accordance with that for depreciable property, plant and equipment as described in Note 2.2(c).

(iii) Operating leases - The Group as lessee

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. The aggregate benefit of incentives by the lessor is recognised as a reduction of rental expense over the lease term on a straight line basis.

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

(h) Income tax

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

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

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(h) Income tax (cont'd.)

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

(i) Provisions

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

(j) Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

(iii) Employee leave entitlement

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

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(j) Employee benefits (cont'd.)

(iv) Equity compensation benefits

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

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

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

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

(k) Foreign currencies

(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

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

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

(k) Foreign currencies (cont'd.)

(ii) Foreign currency transactions (cont'd.)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operation. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in either the functional currency of the reporting entity or the foreign operation, are initially taken directly to the foreign currency translation reserve within equity until the disposal of the foreign operations, at which time they are recognised in profit or loss. Exchange differences arising on monetary items that form part of the Group's net investment in foreign operation, where that monetary item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, are recognised in profit or loss for the period. Exchange differences arising on monetary items that form part of the Company's net investment in foreign operation, regardless of the currency of the monetary item, are recognised in profit or loss in the Company's financial statements or the individual financial statements of the foreign operation, as appropriate.

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.

(iii) Foreign Operations

The results and financial position of foreign operations that have a functional currency different from the presentation currency (RM) of the consolidated financial statements are translated into RM as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate prevailing at the balance sheet date;
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions; and
- All resulting exchange differences are taken to the foreign currency translation reserve within equity.

The principal exchange rates used for every unit of foreign currencies ruling at the balance sheet date are as follows:

	2009	2008
	RM	RM
Singapore Dollars	2.43	2.37
United States Dollars	3.53	3.20
Japanese Yen (equivalent to 100 units)	6.65	3.04
Euro Dollars	4.93	5.05
Renminbi	0.51	0.47

Notes to the Financial Statements

- 31 July 2009

2. Significant accounting policies (cont'd.)

2.3 Standards and Interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following new FRSs, amendments to FRS and Interpretations were issued but not yet effective and have not been applied by the Group and the Company:

FRSs and Interpretations	Effective for financial periods beginning on or after
FRS 4: Insurance Contracts	1 January 2010
FRS 7: Financial Instruments: Disclosures	1 January 2010
FRS 8: Operating Segments	1 July 2009
FRS 123: Borrowing Costs	1 January 2010
FRS 139: Financial Instruments: Recognition and Measurement	1 January 2010
Amendments to FRS 1: First-time Adoption of Financial Reporting Standards	1 January 2010
Amendments to FRS 2: Share-based Payment – Vesting Conditions and Cancellations	1 January 2010
Amendments to FRS 127: Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2010
IC Interpretation 9: Reassessment of Embedded Derivatives	1 January 2010
IC Interpretation 10: Interim Financial Reporting and Impairment	1 January 2010
IC Interpretation 11: FRS 2 – Group and Treasury Share Transactions	1 January 2010
IC Interpretation 13: Customer Loyalty Programmes	1 January 2010
IC Interpretation 14: FRS 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2010

The new FRSs and Interpretations above are expected to have no significant impact on the financial statements of the Group and the Company upon their initial application except for the changes in disclosures arising from the adoption of FRS 7 and FRS 8.

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

2.4 Significant accounting estimates and judgements

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

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

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2. Significant accounting policies (cont'd.)

2.4 Significant accounting estimates and judgements (cont'd.)

(a) Key sources of estimation uncertainty

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

(i) Deferred tax assets

Deferred tax assets are recognised for 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 upon the likely timing and level of future taxable profits together with future tax planning strategies. The details are as disclosed in Note 22.

(ii) Depreciation of plant, machinery and test equipment

The cost of plant, machinery and test equipment for the testing services is depreciated on a straight-line basis over the assets' useful lives. Management estimates the useful lives of these plant, machinery and test equipment to be within 1.5 to 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 economical useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

3. Revenue

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Burn-in and testing services	115,211	133,754	41,862	55,132
Sales and assembly of electronic equipment	54,104	63,750	-	-
	<u>169,315</u>	<u>197,504</u>	<u>41,862</u>	<u>55,132</u>

4. Staff costs

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Salaries and wages	28,483	33,880	9,426	12,632
Pension costs - defined contribution plans	1,795	1,944	565	605
Social security costs	709	266	71	84
Short term accumulating compensated absences	(217)	23	(150)	8
Others	3,690	6,838	3,206	6,111
	<u>34,460</u>	<u>42,951</u>	<u>13,118</u>	<u>19,440</u>

Staff costs above exclude Directors' remunerations.

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5. Profit from operating activities

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Profit from operating activities is arrived at:				
After charging:				
Auditors' remuneration	213	232	90	90
Directors' emoluments	1,093	1,949	983	939
Fair value adjustment on quoted shares	-	57	-	57
Rent of equipment	99	41	-	-
Rent of factory	1,440	1,350	1,081	1,084
Realised loss on foreign exchange	77	223	-	18
Unrealised loss on foreign exchange	199	213	-	9
Property, plant and equipment written off	-	13	-	13

and crediting:

Realised foreign exchange gain	85	194	30	-
Unrealised foreign exchange gain	2,206	879	2,083	-
Gain on disposal of property, plant and equipment	16	170	-	2
Gain on disposal of quoted shares	660	1,589	660	1,589
Gross dividends from other investments	219	229	219	229
Rental income from a subsidiary company	-	-	736	736

Information on Directors' emoluments is as follows:

Directors' emoluments

Directors of the company

Executive				
- fees	161	1,062	61	62
- salaries and other emoluments	784	739	784	739
	945	1,801	845	801
Non-Executive				
- fees	135	135	125	125
- allowances	13	13	13	13
	148	148	138	138
Total Directors' emoluments	1,093	1,949	983	939

Notes to the Financial Statements

- 31 July 2009

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

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

	Number of Directors	
	2009	2008
Executive Directors:		
RM400,001 to RM450,000	1	1
RM500,001 to RM550,000	1	-
RM1,350,001 to RM1,400,000	-	1
	<hr/>	<hr/>
Non-executive Directors:		
Less than RM50,000	5	5
	<hr/>	<hr/>

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

	Group/Company	
	2009	2008
	'000	'000
At 1 August	434	434
Granted	-	-
At 31 July	<hr/>	<hr/>
	434	434

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

Key management personnel compensation

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

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Emoluments	945	1,801	845	801
	<hr/>	<hr/>	<hr/>	<hr/>

6. Interest income

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
- deposits with licensed banks	1,490	1,618	451	775
- loan to a subsidiary company	-	-	833	316
	<hr/>	<hr/>	<hr/>	<hr/>
	1,490	1,618	1,284	1,091

Notes to the Financial Statements

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7. Finance costs

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Interest expense on:				
- term loans	1,971	1,313	210	65
- hire purchase contracts	281	196	122	39
- loan from a corporate shareholder	118	117	-	-
- advance from a subsidiary company	-	-	156	25
- revolving credits	12	5	-	-
	<u>2,382</u>	<u>1,631</u>	<u>488</u>	<u>129</u>

8. Income tax

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Malaysian taxation based on results for the year:				
- current	1,078	2,675	334	867
- (over)/under provision in prior years	(2,762)	137	(2,723)	43
	<u>(1,684)</u>	<u>2,812</u>	<u>(2,389)</u>	<u>910</u>
Deferred tax (Note 22)				
- relating to origination and reversal of temporary differences	1,046	(452)	651	408
- relating to changes in tax rates	-	385	-	322
- over provision in prior years	(197)	(17,430)	(115)	(10,225)
	<u>849</u>	<u>(17,497)</u>	<u>536</u>	<u>(9,495)</u>
	<u>(835)</u>	<u>(14,685)</u>	<u>(1,853)</u>	<u>(8,585)</u>

Domestic current income tax is calculated at the statutory tax rate of 25% (2008: 26%) of the estimated assessable profit for the year.

In the prior year, certain subsidiaries of the Company being Malaysian resident companies with paid-up capital of RM2.5 million or less qualified for the preferential tax rates under Paragraph 2A, Schedule 1 of the Income Tax Act, 1967 as follows:

On the first RM500,000 of chargeable income	:	20%
In excess of RM500,000 of chargeable income	:	26%

However, pursuant to Paragraph 2B, Schedule 1 of the Income Tax Act, 1967 that was introduced with effect from the year of assessment 2009, these subsidiaries no longer qualify for the above preferential tax rates.

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

Notes to the Financial Statements

- 31 July 2009

8. Income tax (cont'd.)

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

	Group	
	2009 RM'000	2008 RM'000
Profit before tax	10,448	20,691
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	2,612	5,380
Different tax rate in other country	-	13
Effect of different tax rates used due to incentives and others	-	(60)
Effect of changes in tax rates on opening balance of deferred tax	-	385
Deferred tax recognised at different tax rate	-	28
Income not subject to tax	(344)	(504)
Expenses not deductible for tax purpose	979	1,168
Utilisation of reinvestment allowance	(195)	(3,472)
Deferred tax asset recognised on unutilised reinvestment allowance	(928)	(330)
(Over)/underprovision of income tax expense in prior years	(2,762)	137
Overprovision of deferred tax in prior years	(197)	(17,430)
Income tax for the year	<u>(835)</u>	<u>(14,685)</u>

	Company	
	2009 RM'000	2008 RM'000
Profit before tax	6,085	11,514
Taxation at Malaysian statutory tax rate of 25% (2008: 26%)	1,522	2,994
Effect of changes in tax rates on opening balance of deferred tax	-	322
Deferred tax recognised at different tax rate	-	(16)
Income not subject to tax	(344)	(504)
Expenses not deductible for tax purpose	247	789
Utilisation of reinvestment allowance	(94)	(1,432)
Deferred tax asset recognised on unutilised reinvestment allowance	(346)	(556)
(Over)/underprovision of income tax expense in prior years	(2,723)	43
Overprovision of deferred tax in prior years	(115)	(10,225)
Income tax for the year	<u>(1,853)</u>	<u>(8,585)</u>

Notes to the Financial Statements

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9. Earnings per share

	Group	
	2009 RM'000	2008 RM'000
Profit attributable to ordinary equity holders of the Company	9,757	30,661
	Number ('000)	Number ('000)
Weighted average number of ordinary shares in issue	43,015	43,005
Adjustment for conversion of options under ESOS to ordinary shares	3	1,164
	<u>43,018</u>	<u>44,169</u>
Basic earnings per share	<u>22.7 sen</u>	<u>71.3 sen</u>
Diluted earnings per share	<u>22.7 sen</u>	<u>69.4 sen</u>

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

10. Dividend

	2009 RM'000	2008 RM'000
Recognised during the year:		
First and final tax exempt dividend for 2008: on 43,014,500 ordinary shares (3 sen per ordinary share)	1,290	-
First and final tax exempt dividend for 2007: on 43,000,500 ordinary shares (3 sen per ordinary share)	-	<u>1,290</u>
Proposed for approval at AGM (not recognised as at 31 July):		
First and final tax exempt dividend for 2009: on 43,014,500 ordinary shares (3 sen per ordinary share)	1,290	-
First and final tax exempt dividend for 2008: on 43,014,500 ordinary shares (3 sen per ordinary share)	-	<u>1,290</u>

Notes to the Financial Statements

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11. Property, plant and equipment

Group	At 31 July 2009						Total RM'000
	Buildings RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in- progress RM'000	
Cost/valuation							
At 1 August 2008	22,350	5,402	342,733	1,326	7,426	27,211	406,448
Additions	-	34	14,065	67	326	2,207	16,699
Disposals	(110)	-	(1,850)	-	(153)	-	(2,113)
Reclassification	-	2,523	25,697	-	12	(28,232)	-
Revaluation adjustments	(205)	-	-	-	-	-	(205)
Exchange differences	-	217	1,981	7	51	846	3,102
At 31 July 2009	22,035	8,176	382,626	1,400	7,662	2,032	423,931
Accumulated depreciation and impairment losses							
At 1 August 2008	6,075	2,417	247,018	850	5,728	354	262,442
Depreciation charge	1,725	973	43,298	211	737	-	46,944
Impairment losses	-	-	-	-	-	177	177
Disposals	(35)	-	(1,834)	-	(153)	-	(2,022)
Elimination of accumulated depreciation on revaluation	(7,126)	-	-	-	-	-	(7,126)
Exchange differences	-	30	152	1	9	-	192
At 31 July 2009	639	3,420	288,634	1,062	6,321	531	300,607
Analysed as follow:							
Accumulated depreciation	639	3,361	287,818	1,062	6,305	-	299,185
Accumulated impairment losses	-	59	816	-	16	531	1,422
	639	3,420	288,634	1,062	6,321	531	300,607
Net carrying amount							
At cost	-	4,756	93,992	338	1,341	1,501	101,928
At valuation	21,396	-	-	-	-	-	21,396
At 31 July 2009	21,396	4,756	93,992	338	1,341	1,501	123,324

Notes to the Financial Statements

- 31 July 2009

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

Group (cont'd.)	Buildings	Leasehold improvements	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in- progress	Total
At 31 July 2008	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost/valuation							
At 1 August 2007	22,350	2,763	280,674	1,196	7,042	2,323	316,348
Additions	-	2,639	63,575	163	1,080	32,058	99,515
Disposals	-	-	(2,954)	(33)	(251)	-	(3,238)
Write off	-	-	(5,732)	-	(445)	-	(6,177)
Reclassification	-	-	7,170	-	-	(7,170)	-
At 31 July 2008	22,350	5,402	342,733	1,326	7,426	27,211	406,448
Accumulated depreciation and impairment losses							
At 1 August 2007	4,543	1,797	214,093	666	5,636	-	226,735
Depreciation charge	1,532	611	41,565	218	764	-	44,690
Impairment losses	-	-	-	-	-	354	354
Disposals	-	-	(2,954)	(33)	(243)	-	(3,230)
Write off	-	-	(5,732)	-	(432)	-	(6,164)
Exchange differences	-	9	46	(1)	3	-	57
At 31 July 2008	6,075	2,417	247,018	850	5,728	354	262,442
Analysed as follow:							
Accumulated depreciation	6,075	2,358	246,202	850	5,712	-	261,197
Accumulated impairment losses	-	59	816	-	16	354	1,245
	6,075	2,417	247,018	850	5,728	354	262,442
Net carrying amount							
At cost	-	2,985	95,715	476	1,698	26,857	127,731
At valuation	16,275	-	-	-	-	-	16,275
At 31 July 2008	16,275	2,985	95,715	476	1,698	26,857	144,006

Notes to the Financial Statements

- 31 July 2009

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

Company	Buildings	Leasehold	Plant, machinery and test equipment	Motor vehicles	Office equipment, furniture and fittings and computers	Capital work-in- progress	Total
At 31 July 2009	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost/valuation							
At 1 August 2008	11,030	1,576	97,901	652	3,808	708	115,675
Additions	-	1	1,889	-	193	1,822	3,905
Revaluation adjustments	(485)	-	-	-	-	-	(485)
Disposal	-	-	-	-	(124)	-	(124)
Reclassification	-	-	824	-	4	(828)	-
At 31 July 2009	10,545	1,577	100,614	652	3,881	1,702	118,971
Accumulated depreciation and impairment losses							
At 1 August 2008	3,047	1,125	73,384	387	3,157	354	81,454
Depreciation charge for the year	875	139	8,209	95	265	-	9,583
Elimination of accumulated depreciation on revaluation	(3,563)	-	-	-	-	-	(3,563)
Impairment losses	-	-	-	-	-	177	177
Disposal	-	-	-	-	(124)	-	(124)
At 31 July 2009	359	1,264	81,593	482	3,298	531	87,527
Analysed as follows:							
Accumulated depreciation	359	1,205	80,777	482	3,282	-	86,105
Accumulated impairment losses	-	59	816	-	16	531	1,422
	359	1,264	81,593	482	3,298	531	87,527
Net carrying amount							
At cost	-	313	19,021	170	583	1,171	21,258
At valuation	10,186	-	-	-	-	-	10,186
At 31 July 2009	10,186	313	19,021	170	583	1,171	31,444

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

Company (cont'd.) At 31 July 2008	Buildings RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in- progress RM'000	Total RM'000
Cost/valuation							
At 1 August 2007	11,030	1,467	85,156	643	3,960	937	103,193
Additions	-	109	17,098	42	293	1,150	18,692
Disposal	-	-	-	(33)	-	-	(33)
Write off	-	-	(5,732)	-	(445)	-	(6,177)
Reclassification	-	-	1,379	-	-	(1,379)	-
At 31 July 2008	<u>11,030</u>	<u>1,576</u>	<u>97,901</u>	<u>652</u>	<u>3,808</u>	<u>708</u>	<u>115,675</u>
Accumulated depreciation and impairment losses							
At 1 August 2007	2,272	967	72,361	319	3,236	-	79,155
Depreciation charge for the year	775	158	6,755	101	353	-	8,142
Impairment losses	-	-	-	-	-	354	354
Disposal	-	-	-	(33)	-	-	(33)
Write off	-	-	(5,732)	-	(432)	-	(6,164)
At 31 July 2008	<u>3,047</u>	<u>1,125</u>	<u>73,384</u>	<u>387</u>	<u>3,157</u>	<u>354</u>	<u>81,454</u>
Analysed as follow:							
Accumulated depreciation	3,047	1,066	72,568	387	3,141	-	80,209
Accumulated impairment losses	-	59	816	-	16	354	1,245
	<u>3,047</u>	<u>1,125</u>	<u>73,384</u>	<u>387</u>	<u>3,157</u>	<u>354</u>	<u>81,454</u>
Net carrying amount							
At cost	-	451	24,517	265	651	354	26,238
At valuation	7,983	-	-	-	-	-	7,983
At 31 July 2008	<u>7,983</u>	<u>451</u>	<u>24,517</u>	<u>265</u>	<u>651</u>	<u>354</u>	<u>34,221</u>

Notes to the Financial Statements

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

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

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Buildings	6,093	6,995	2,851	3,228

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Plant, machinery and test equipment	5,606	7,435	2,310	2,973
Motor vehicles	141	202	141	202
	5,747	7,637	2,451	3,175

The aggregate net book values of plant, machinery and test equipment of the Group and of the Company of RM34,611,000 (2008: RM42,492,000) and RM6,011,000 (2008:RM1,174,000) respectively, are pledged as securities for term loans as disclosed in Note 20.

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Cash payments	16,401	85,698	3,607	15,364
Hire purchase	-	3,697	-	3,305
Financed by creditors	298	10,120	298	23
	16,699	99,515	3,905	18,692

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

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At cost:				
Plant, machinery and test equipment	214,432	169,031	66,315	61,478
Leasehold improvements	1,543	1,392	884	866
Office equipment, furniture and fittings and computers	4,610	4,222	2,633	2,274
Motor vehicles	754	230	283	138
	<u>221,339</u>	<u>174,875</u>	<u>70,115</u>	<u>64,756</u>

12. Prepaid land lease payments

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Long term leasehold land				
At 1 August	6,024	6,166	3,580	3,658
Amortisation	(142)	(142)	(78)	(78)
At 31 July	<u>5,882</u>	<u>6,024</u>	<u>3,502</u>	<u>3,580</u>

The Company has not received the title deed to a leasehold land with carrying value of RM3,220,000 (2008: RM3,290,000).

13. Subsidiary companies

	Company	
	2009 RM'000	2008 RM'000
At cost:		
Unquoted shares	<u>21,573</u>	<u>21,573</u>

Notes to the Financial Statements

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13. Subsidiary companies (cont'd.)

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Principal activities	Equity interest	
			2009 %	2008 %
KESP Sdn Bhd	Malaysia	Provision of semiconductor burn-in services and assembly of electronic components	100	100
KESM Test (M) Sdn Bhd	Malaysia	Testing of semiconductor integrated circuits	65.38	65.38
KESM Industries (Tianjin) Co., Ltd.	China	Provision of semiconductor burn-in and testing of semiconductor integrated circuits	100	100

14. Inventories

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At cost:				
Raw materials	8,554	4,557	-	-
Consumables	2,199	3,073	177	191
Work-in-progress	469	13	-	-
Finished goods	1,937	402	-	-
	<u>13,159</u>	<u>8,045</u>	<u>177</u>	<u>191</u>

15. Trade and other receivables

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Trade receivables	40,116	35,926	8,737	12,957
Deposits	670	590	524	526
Prepayments	1,957	1,690	294	646
Sundry receivables	1,400	736	923	560
Due from subsidiaries	-	-	28,586	31,709
Due from related parties	213	1	-	-
	<u>44,356</u>	<u>38,943</u>	<u>39,064</u>	<u>46,398</u>

The Group's normal trade credit term ranges from 30 days to 95 days (2008: 30 days to 95 days).

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

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

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

Notes to the Financial Statements

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16. Other investments

	Group/Company	
	2009	2008
	RM'000	RM'000
Shares quoted in Malaysia		
- At cost	8,213	6,243
Market value	11,747	8,788

17. Cash and cash equivalents

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Deposits with licensed banks	75,105	49,611	24,287	10,961
Cash and bank balances	5,587	9,405	1,549	2,419
	80,692	59,016	25,836	13,380

Fixed deposits of the Group amounting to RM32,500 (2008: RM32,500) were pledged to a bank as security for credit facilities granted to the Group.

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

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Maturities of deposits	30 days	25 days	30 days	30 days
Interest rates	2.25%	2.90%	1.3% - 1.8%	2.90%

18. Share capital

	Group/Company		Group/Company	
	2009	2008	2009	2008
	Number	Number	RM'000	RM'000
	('000)	('000)		
Authorised:				
Ordinary shares of RM1 each				
At 1 August/31 July	50,000	50,000	50,000	50,000
Issued and fully paid:				
Ordinary shares of RM1 each				
At 1 August	43,015	43,001	43,015	43,001
Pursuant to ESOS	-	14	-	14
At 31 July	43,015	43,015	43,015	43,015

Notes to the Financial Statements

- 31 July 2009

19. Reserves

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Distributable:				
Retained profits	142,785	134,318	67,940	61,292
Non-distributable:				
Share premium	663	663	663	663
Asset revaluation reserve	12,915	7,658	4,549	2,241
Merger relief reserve	-	-	1,215	1,215
Foreign currency translation reserve	2,157	664	-	-
	<u>158,520</u>	<u>143,303</u>	<u>74,367</u>	<u>65,411</u>

(i) Retained profits

Prior to the year of assessment 2008, Malaysian companies adopt 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 dividend 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 Section 108 balance and opt to pay dividends under the single tier system. The change in the tax legislation also provides for the Section 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 2009 to distribute cash dividend payments to ordinary shareholdings as defined under the Finance Act 2007. As at 31 July 2009, the Company has sufficient credit in the Section 108 balance to pay franked dividends amounting to RM25,100,000 (2008: RM25,100,000) out of its retained profits. As at balance sheet date, the Company has sufficient tax exempt account balance to distribute tax exempt dividends of approximately RM5,821,000 (2008: RM6,411,000). The Company may distribute dividends from the balance of retained profits under the single tier system.

(ii) Asset revaluation reserve

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At 1 August	7,658	7,433	2,241	2,124
Effect on deferred tax relating to reduction in tax rate	-	225	-	117
Revaluation increase, net of deferred tax	5,257	-	2,308	-
At 31 July	<u>12,915</u>	<u>7,658</u>	<u>4,549</u>	<u>2,241</u>

Notes to the Financial Statements

- 31 July 2009

19. Reserves (cont'd.)

(iii) Foreign currency translation reserve

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

20. Borrowings

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Short term				
Secured:				
Hire purchase (Note 21)	2,193	2,780	1,121	1,180
Term loans	18,186	12,191	2,940	458
	<u>20,379</u>	<u>14,971</u>	<u>4,061</u>	<u>1,638</u>
Long term				
Secured:				
Hire purchase (Note 21)	894	3,088	894	2,016
Term loans	15,947	7,632	2,215	-
Unsecured:				
Other loan	1,374	1,374	-	-
	<u>18,215</u>	<u>12,094</u>	<u>3,109</u>	<u>2,016</u>
Total borrowings				
Hire purchase (Note 21)	3,087	5,868	2,015	3,196
Term loans	34,133	19,823	5,155	458
Other loan	1,374	1,374	-	-
	<u>38,594</u>	<u>27,065</u>	<u>7,170</u>	<u>3,654</u>

Term loans are secured by way of:

- (i) first party pledge over the Group's and Company's plant and equipment with aggregate net book values of RM34,611,000 (2008: RM42,492,000) and RM6,011,000 (2008: RM1,174,000), respectively, as referred to in Note 11(b).
- (ii) negative pledge; and
- (iii) corporate guarantee provided by the Company.

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

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

Notes to the Financial Statements

- 31 July 2009

21. Hire purchase payables

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Future minimum hire purchase payments:				
Not later than 1 year	2,424	3,061	1,238	1,302
After one year and not later than five years	988	3,413	988	2,227
Total future minimum hire purchase payments	3,412	6,474	2,226	3,529
Less: Future finance charges	(325)	(606)	(211)	(333)
Present value of hire purchase liabilities	3,087	5,868	2,015	3,196
Analysis of present value of hire purchase liabilities:				
Not later than 1 year	2,193	2,780	1,121	1,180
After one year and not later than 5 years	894	3,088	894	2,016
	3,087	5,868	2,015	3,196

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

22. Deferred tax (assets)/liabilities

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
At 1 August				
As previously stated	(7,334)	14,604	(921)	8,691
Prior year adjustment - FRS 112	-	(4,216)	-	-
At 1 August (restated)	(7,334)	10,388	(921)	8,691
Recognised in income statement (Note 8)	849	(17,497)	536	(9,495)
Recognised in equity	1,662	(225)	770	(117)
At 31 July	(4,823)	(7,334)	385	(921)
Presented after appropriate offsetting as follows:				
Deferred tax liabilities	4,351	874	2,516	-
Deferred tax assets	(9,174)	(8,208)	(2,131)	(921)
	(4,823)	(7,334)	385	(921)

Notes to the Financial Statements

- 31 July 2009

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

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

Deferred tax liabilities of the Group

	Revaluation surplus RM'000	Others RM'000	Total RM'000
At 1 August 2007	3,044	16,950	19,994
Recognised in income statement	(118)	(16,950)	(17,068)
Recognised in equity	(225)	-	(225)
At 31 July 2008	2,701	-	2,701
Recognised in income statement	(303)	-	(303)
Recognised in equity	1,662	-	1,662
At 31 July 2009	4,060	-	4,060

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2007	(4,107)	(4,216)	(1,283)	(9,606)
Recognised in income statement	(485)	(330)	386	(429)
At 31 July 2008	(4,592)	(4,546)	(897)	(10,035)
Recognised in income statement	(1)	189	964	1,152
At 31 July 2009	(4,593)	(4,357)	67	(8,883)

Deferred tax liabilities of the Company

	Revaluation surplus RM'000	Others RM'000	Total RM'000
At 1 August 2007	1,581	10,120	11,701
Recognised in income statement	(27)	(10,120)	(10,147)
Recognised in equity	(117)	-	(117)
At 31 July 2008	1,437	-	1,437
Recognised in income statement	309	-	309
Recognised in equity	770	-	770
At 31 July 2009	2,516	-	2,516

Deferred tax assets of the Company

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2007	(2,357)	-	(653)	(3,010)
Recognised in income statement	1,032	(556)	176	652
At 31 July 2008	(1,325)	(556)	(477)	(2,358)
Recognised in income statement	(218)	192	253	227
At 31 July 2009	(1,543)	(364)	(224)	(2,131)

Notes to the Financial Statements

- 31 July 2009

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

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

	Group	
	2008	2007
	RM'000	RM'000
Unutilised reinvestment allowance	<u>78,593</u>	<u>65,088</u>

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

Deferred tax asset has not been recognised in respect of the above item as it is not probable that sufficient future taxable income will be available for the benefits to be realised.

23. Trade and other payables

	Group		Company	
	2009	2008	2009	2008
	RM'000	RM'000	RM'000	RM'000
Trade payables	5,256	3,664	27	19
Due to related parties (trade)	70	5	33	-
Accrued operating expenses	3,221	3,928	1,416	2,245
Accrual for Directors' fees	310	1,209	200	199
Sundry payables	15,218	19,789	3,255	4,443
Balance due for acquisitions				
of property, plant and equipment	298	10,120	298	23
Due to a subsidiary	-	-	-	4,762
Due to related parties (non-trade)	977	816	305	453
	<u>25,350</u>	<u>39,531</u>	<u>5,534</u>	<u>12,144</u>

The normal trade credit terms granted to the Group range from 30 days to 60 days (2008: 30 days to 60 days).

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

In the previous year, the amount due to a subsidiary was unsecured, bore interest at 2.5%-5% per annum and had no fixed term of repayment.

Notes to the Financial Statements

- 31 July 2009

24. Significant related party transactions

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

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiary companies				
Management fees charged by Sunright Limited	3,466	3,810	1,431	1,663
Interest on loan from:				
-Sunright Limited	118	117	-	-
Sales to:				
-KES Systems, Inc.	-	117	-	-
-KES Systems & Service (1993) Pte Ltd	-	16	-	-
Purchases from:				
-KES Systems & Service (1993) Pte Ltd	226	909	226	875
-Kestronics (M) Sdn Bhd	256	417	140	387
-KES Systems, Inc.	3	-	2	-
-KEST Systems & Service Ltd	201	-	-	-
- Kestronic Electronics (Shanghai Pudong New Area) Co., Ltd	-	4	-	-
			Company	
			2009	2008
			RM'000	RM'000
Transactions with subsidiary companies				
Rental income from a subsidiary company for rent of a factory			736	736
Finance costs on loan and advances from a subsidiary company			(156)	(25)
Interest income on loan and advance to a subsidiary company			833	316

The Directors are of the opinion that the above transactions were in the normal course of business and at terms mutually agreed between the companies.

Notes to the Financial Statements

- 31 July 2009

25. Contingent liabilities

	Company	
	2009 RM'000	2008 RM'000
Unsecured:		
Guarantees granted to licensed banks and financial institutions in respect of credit facilities extended to subsidiary companies	15,973	17,505

26. Capital commitments

	Group		Company	
	2009 RM'000	2008 RM'000	2009 RM'000	2008 RM'000
Property, plant and equipment				
Authorised and contracted for	21	452	18	329
Authorised but not contracted for	-	67	-	-

27. Segment information

Business segments

The following table provides an analysis of the Group's revenue, results, assets, liabilities and other information by business segments:

	Burn-in, testing and assembly RM'000	Investment holdings RM'000	Total operations RM'000
At 31 July 2009			
Revenue/operating income			
Sales to external customers	169,315	-	169,315
Dividend income	-	219	219
Results			
Segment results	8,240	879	9,119
Other operating income			2,221
Interest income			1,490
Finance costs			(2,382)
Profit before tax			10,448
Income tax			835
Profit for the year			11,283
Assets			
Segment assets	268,414	8,213	276,627
Deferred tax assets	9,174	-	9,174
			285,801
Liabilities			
Segment liabilities	63,944	-	63,944
Deferred tax liabilities	4,351	-	4,351
			68,295

Notes to the Financial Statements

- 31 July 2009

27. Segment information (cont'd.)

Business segments (cont'd.)

	Burn-in, testing and assembly RM'000	Investment holdings RM'000	Total operations RM'000
At 31 July 2009 (cont'd.)			
Other segment information			
Capital expenditure	16,699	-	16,699
Depreciation	46,944	-	46,944
Amortisation of prepaid land lease payments	142	-	142
Impairment losses recognised in profit or loss	177	-	177
At 31 July 2008			
Revenue/operating income			
Sales to external customers	197,504	-	197,504
Dividend income	-	229	229
Results			
Segment results	18,023	1,761	19,784
Other operating income			920
Interest income			1,618
Finance costs			(1,631)
Profit before tax			20,691
Income tax			14,685
Profit for the year			35,376
Assets			
Segment assets	256,034	6,243	262,277
Deferred tax assets	8,208	-	8,208
			270,485
Liabilities			
Segment liabilities	66,596	-	66,596
Deferred tax liabilities	874	-	874
Taxation	2,252	-	2,252
			69,722
Other segment information			
Capital expenditure	99,515	-	99,515
Depreciation	44,690	-	44,690
Amortisation of prepaid land lease payments	142	-	142
Impairment losses recognised in profit or loss	354	-	354
Fair value adjustments in profit or loss	-	57	57

Notes to the Financial Statements

- 31 July 2009

27. Segment information (cont'd.)

Geographical segments

The following table provides an analysis of the Group's revenue, segment assets and capital expenditure, analysed by geographical segments:

	Malaysia RM'000	China RM'000	Total operations RM'000
At 31 July 2009			
Revenue			
Sales to external customers	159,345	9,970	169,315
Dividend income	219	-	219
	<hr/>	<hr/>	<hr/>
Assets			
Segment assets	235,696	40,931	276,627
Deferred tax assets	9,174	-	9,174
	<hr/>	<hr/>	<hr/>
			285,801
Other segment information			
Capital expenditure	14,718	1,981	16,699
	<hr/>	<hr/>	<hr/>
At 31 July 2008			
Revenue			
Sales to external customers	194,484	3,020	197,504
Dividend income	229	-	229
	<hr/>	<hr/>	<hr/>
Assets			
Segment assets	223,342	38,935	262,277
Deferred tax assets	8,208	-	8,208
	<hr/>	<hr/>	<hr/>
			270,485
Other segment information			
Capital expenditure	65,955	33,560	99,515
	<hr/>	<hr/>	<hr/>

28. Financial instruments

(a) Financial risk management objectives and policies

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

Notes to the Financial Statements

- 31 July 2009

28. Financial instruments (cont'd.)

(b) Interest rate risk

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.

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

	Note	Within 1 year RM'000	1-2 years RM'000	2-3 years RM'000	Total RM'000
Group					
At 31 July 2009					
Fixed and floating rate					
Borrowings	20	20,379	13,789	3,052	37,220
At 31 July 2008					
Fixed and floating rate					
Borrowings	20	14,971	7,436	3,284	25,691
Company					
At 31 July 2009					
Fixed and floating rate					
Borrowings	20	4,061	3,109	-	7,170
At 31 July 2008					
Fixed and floating rate					
Borrowings	20	1,638	1,122	894	3,654

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

Notes to the Financial Statements

- 31 July 2009

28. Financial instruments (cont'd.)

(c) Foreign exchange risk

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

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

	2009 RM'000	2008 RM'000
Net financial liabilities		
Non-functional currencies:		
Singapore Dollars	(429)	(1,038)
United States Dollars	10,493	(3,978)
Japanese Yen	-	(1)
	<u>10,064</u>	<u>(5,017)</u>

(d) Liquidity risk

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

(e) Credit risk

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

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

(f) Fair values

(i) Methods and assumptions

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

Borrowings

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

Other investments

The fair value of quoted investments is determined by reference to the market price at the balance sheet date and is disclosed in Note 16.

Notes to the Financial Statements

- 31 July 2009

28. Financial instruments (cont'd.)

(f) Fair values (cont'd.)

(i) Methods and assumptions (cont'd.)

Due from/(to) subsidiaries/related parties

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

Other financial assets and liabilities

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

(ii) Recognised financial instruments

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

	Note	Group		Company	
		Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Financial liabilities					
At 31 July 2009:					
Secured term loan	20	34,133	31,334	5,155	4,852
Hire purchase payables	21	3,087	3,224	2,015	2,099
At 31 July 2008:					
Secured term loan	20	19,823	19,259	458	437
Hire purchase payables	21	5,868	5,925	3,196	3,219

Shareholders' Information

as at 30 September 2009

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
162	100 to 1,000 shares	135,800	0.32
702	1,001 to 10,000 shares	2,763,200	6.42
129	10,001 to 100,000 shares	3,812,800	8.86
13	100,001 to less than 5% of issued shares	8,498,800	19.76
2	5% and above of issued shares	27,803,700	64.64
1,013	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

Name of Shareholders	Direct	Number of Shares Held		Deemed Interest	%
			%		
1. Sunright Limited	20,825,000	48.41	-	-	
2. Samuel Lim Syn Soo	-	-	20,825,000*	48.41	
3. Lembaga Tabung Haji	6,978,700	16.22	-	-	
4. Lim Mee Hwa	75,000	0.17	2,105,800 [#]	4.90	

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

[#] Deemed interest by virtue of substantial shareholdings in Yeoman Capital Management Pte Ltd

Shareholders' Information

as at 30 September 2009

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

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

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

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 2009.

EMPLOYEES SHARE OPTION SCHEME ("ESOS")

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

Name of Directors	Exercise Price	Options granted to subscribe for ordinary shares of RM1 each
1. Samuel Lim Syn Soo	RM2.192*	50,000*
	RM2.464*	50,000*
	RM2.344*	50,000*
	RM3.10	34,000
	RM2.50	20,000
	RM1.927	12,800
		216,800
2. Kenneth Tan Teoh Khoon	RM2.192*	50,000*
	RM2.464*	50,000*
	RM2.344*	50,000*
	RM3.10	34,000
	RM2.50	20,000
	RM1.927	12,800
		216,800

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

Shareholders' Information

as at 30 September 2009

THIRTY LARGEST SHAREHOLDERS

Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1. Sunright Limited	20,825,000	48.41
2. Lembaga Tabung Haji	6,978,700	16.22
3. Wong Tee Kim @ Wong Tee Fatt	2,150,000	4.99
4. Tan Kong Hong Alex	2,057,500	4.78
5. HSBC Nominees (Asing) Sdn Bhd BNY Brussels for Queensland Investment Corporation	1,546,500	3.60
6. DB (Malaysia) Nominee (Asing) Sdn Bhd Exempt An for British And Malayan Trustees Limited (Yeoman 3-Rights)	559,300	1.30
7. Tan Kim Hin	400,000	0.93
8. Citigroup Nominees (Asing) Sdn Bhd Citigroup GM Inc for SC Asian Opportunity Fund, L.P	399,200	0.93
9. Mayban Nominees (Tempatan) Sdn Bhd Heng Peng Heng	255,000	0.59
10. Soon Hoe Chuan	250,200	0.58
11. Tan Jin Tuan	200,000	0.46
12. Chau Tai Chuon	193,600	0.45
13. CIMSEC Nominees (Asing) Sdn Bhd Exempt An for CIMB-GK Securities Pte Ltd	182,500	0.42
14. Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Eng Su Lim	170,000	0.40
15. Wong Yoke Fong @ Wong Nyok Fing	135,000	0.31
16. Mayban Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim Kian Yap	98,400	0.23
17. RHB Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Wee Hoong	95,000	0.22
18. Soong And Saw Investment Trust Sdn. Berhad	95,000	0.22
19. Lim Siew Geok	95,000	0.22
20. Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Wooi Kong Yau	86,000	0.20
21. Sushil Kaur a/p Sudar Shan Singh	85,100	0.20
22. HLG Nominee (Tempatan) Sdn Bhd Pledged securities account for Leong Wai Hong	82,100	0.19
23. HDM Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd for Lim Mee Hwa	75,000	0.17
24. Chan Tuck Sheong	71,900	0.17
25. Capital Dynamics Asset Management Sdn Bhd	70,000	0.16
26. TA Nominees (Tempatan) Sdn Bhd Pledged securities account for Kuay Ah Geok	69,000	0.16
27. Lai Chin Loy	61,500	0.14
28. Ter Kham Ee	55,000	0.13
29. Lee Hau Hian	54,000	0.13
30. Leong Choon Lai	52,000	0.12
Total	37,447,500	87.03

Group Properties

as at 31 July 2009

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	No individual qualified title has been issued yet Note (a)	5,064 / Phase I – 2,315 Phase II – 3,169 Phase III – 3,345	Phase I - 13 Phase II - <11 Phase III - <12	3,220 / Phase I – 2,237 Phase II – 3,154 Phase III – 4,320
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	18	281 / 475
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 – 17 Phase II – 13 Phase III – 10	2,379 / 10,238
42-17-19 Desa Green Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	20	122,684
15-4-7 Kota Nibong Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	17	112,870
15-7-4 Kota Nibong Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	17	112,870
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	16	122,684
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	16	122,916
33-11-21 Taman Pekaka Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	13	132,500
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	16	123,105
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment / employees' hostel	25 May 2009	Freehold	65.03	16	123,105

Note: -

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Thirty-Eighth Annual General Meeting of the Company will be held at Kristal Suite 1&2, 1st Floor, West Wing, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Tuesday, 12 January 2010 at 10.30 a.m. for the following purposes: -

AGENDA

1. To receive the Audited Financial Statements for the financial year ended 31 July 2009 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 2009. **Resolution 2**
3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2009. **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**
6. As Special Business: -

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

Authority to issue shares pursuant to the Employees Share Option Scheme Resolution 7

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

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

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

Petaling Jaya
28 October 2009

Notice of Annual General Meeting

Notes: -

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

Explanatory Notes on Special Business: -

Resolution pursuant to the Employees Share Option Scheme

The proposed Resolution No. 7 authorises the Directors to issue shares in the Company upon the exercise of the options under the Employees Share Option Scheme up to an aggregate amount not exceeding 15% of the issued share capital of the Company for the time being.

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

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 2009, if approved at the forthcoming Annual General Meeting, will be paid on 2 February 2010 to Depositors registered in the Record of Depositors on 18 January 2010. 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 2010, in respect of ordinary transfers; and
- b) Shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

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

Petaling Jaya
28 October 2009

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Proxy Form

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

_____ (Address) being

a member / members of KESM Industries Berhad hereby appoint

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

and / or (delete as appropriate)

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

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the Thirty-Eighth Annual General Meeting of the Company to be held at Kristal Suite 1&2, 1st Floor, West Wing, Hilton Petaling Jaya, No. 2 Jalan Barat, 46200 Petaling Jaya, Selangor Darul Ehsan, Malaysia on Tuesday, 12 January 2010 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 Teh Khoo as Director		
6.	Re-appointment of Auditors		
7.	Approval to issue shares pursuant to Employees Share Option Scheme		

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

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

Signed this _____ day of _____ 2009 / 2010

Signature/Common Seal of Shareholder(s)



Notes: -

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

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Affix postage
here

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

Fold here

KESM INDUSTRIES BERHAD

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