A Member of

SUNRIGHT

KESM INDUSTRIES BERHAD (13022-A) ANNUAL REPORT

CONTENTS

Semiconductors are used in all tech gadgets. These chips are becoming faster and smarter, offering seamless connectivity in this global world. They also play an important role in today's automotive innovations in the areas of comfort, safety controls and infotainment features, etc.

At KESM, we ensure the reliability and functionality behind many of these new chips designed and manufactured by our customers.

CHAIRMAN'S STATEMENT

Dear Fellow Shareholders

Our financial year 2014 results represent another remarkable year. We achieved record revenue, increased market share and we built on an already solid balance sheet.

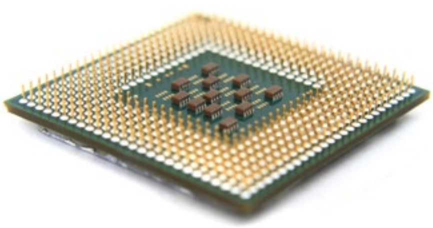
KESM delivered record shipment of over 1 billion semiconductor devices generating record revenue of RM254.4 million. In FY 2014, Net Profit After Minority Interests increased to RM10.9 million from RM4.6 million last year and Earnings Per Share stood at 25.3 sen.

We further improved our market share. We forged strategic partnerships with selected long-standing customers, enabling us to deliver optimal value. We focused on growing our revenue and worked hard in maintaining an efficient cost structure. We experienced sharp escalating costs of labour and electricity, in both Malaysia and China. At the same time, we make good improvements in manufacturing cycle time and improved equipment utilization. These excellent efforts have enabled us to mitigate the cost increases. Our achievements underscored our service excellence and the success of our strategic investments.

Ensuring reliability behind the chips

Service Excellence

Traditionally, we tracked our customers' devices at critical points in the manufacturing process to improve productivity and yield expectations. Last year, we focused our resources to improving service excellence. We introduced "IBMS" - Integrated Burn-In Management Systems. This intelligent tool manages yield improvements by identifying how, when and where a device or equipment may fail before, during and after burn-in process. This comprehensive and innovative solution with proprietary software control, further ensures our process quality.



Strategic Investments

We invested RM68 million on the newest and most advanced range of burn-in and test equipment supporting a wide range of devices such as sensors, microcontrollers, microprocessors etc. with a diversified customer base. These investments strengthened our leadership position, and provided new growth opportunities and synergies for burn-in and testing.

2015: Outlook

The current global economic climate is filled with uncertainties in major economies. The geopolitical threats of terrorism and the spread of Ebola caused dampening effects on the market place. Nevertheless, we remain focused to drive our business. The world-wide semiconductor revenue is projected to grow 5.8 percent in calendar year 2015 from a forecasted closing of US$338 billion in 2014.

Given our leading position in the market, we are confident of expanding our strategic initiatives and increasing our ability to serve our customers. We will stay focused on two key business initiatives to grow in the years ahead.

First to "build long term growth in the auto market segment"

The automotive market has a constant flow of new models with new features and a strong replacement cycle. The growth of electric cars and the addition of electronics are making cars smarter which are equipped with infotainment, precise global positioning systems, and enhanced safety features etc. The content of electronics in a car is growing from US$284 to US$330, from 2014 to 2019. This expansion brings new opportunities in burn-in and testing services to KESM. Our qualified workforce with strong accreditations for quality, have laid an excellent foundation for us to forge a leadership position in this market, and to grow our business with world-class automotive semiconductor manufacturers.

Second to "strengthen test growth engine"

Products may change but devices would still be required to be finally tested to confirm their functionality. Change in technology is constant, but the need for testing remains fundamentally unchanged. A test equipment may occupy a space about the size of a car park lot and cost US$1-2 million each. Testing service is a highly capital intensive business, so we narrowed our focus to serve in the automotive market. We have made satisfying returns on our test investments in Malaysia. We have gained valuable experiences and deepened our technical knowledge. The deployment of our test strategies has provided an important platform in growing our test business.

2015 & Beyond......

We have much to do this coming year to strengthen and build upon our position as the largest independent 'burn-in & test' service company in Malaysia. Chip testing will be our growth engine. KESM is on the right path. We are poised to grow with market leaders whom we have excellent relations. We have learned throughout history, that an important key to success is not just making the right financial investments, determining the right markets and customers, preparing the right vision but also to build a strong execution culture - a strength KESM has harnessed to improve efficiency and generate a consistent financial track record.

Dividend

Our Directors are pleased to recommend a final dividend of 3 sen per share for FY 2014. This proposed final dividend if approved at the Company's 43rd Annual General Meeting, will be paid on 17th February 2015.

Appreciation

As we look ahead, we remain optimistic on the future of KESM. Our manufacturing agility, excellence and dedicated workforce remain as our strengths. We thank all our employees for their dedication in supporting our customers and our stakeholders for their unwavering support.

Mr. Samuel Lim
Executive Chairman & Chief Executive Officer
16th October, 2014

BOARD OF DIRECTORS

MR. SAMUEL LIM SYN SOO
Aged 60, Singaporean
Non-Independent Executive Director

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

Mr. Lim holds a Diploma in Industrial Engineering (Canada) and has more than 42 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 3 U.S. patent families in recognition of his inventions in various solutions involving "Burn-in and test". He also sits on the Board of all the companies in Sunright Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited.

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

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

MR. KENNETH TAN TEOH KHOON
Aged 57, Singaporean
Non-Independent Executive Director

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

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

Mr. Kenneth 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 Kenneth Tan holds a Bachelor of Accountancy degree from the National University of Singapore and is a Fellow Chartered Accountant of Singapore of the Institute of Singapore Chartered Accountants.

BOARD OF DIRECTORS

MS. LIM MEE ING
Aged 63, Singaporean
Non-Independent Non-Executive Director

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

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

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN
Aged 59, Malaysian
Senior Independent Non-Executive Director

Tuan Haji Zakariah was first appointed to the Board on 27 January 1995 as an Non-Independent Non-Executive Director. He was re-designated as Independent Non-Executive Director on 8 March 2011.

On 31 May 2013, Tuan Haji Zakariah was appointed as a Senior Independent Director and as Chairman of the Audit Committee. He is also the Chairman of the Nominating Committee.

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

In addition, he has wide experience in the private sector, holding important positions in two subsidiaries of LTH. Among others, he was appointed as the Deputy Chief Executive Officer of TH Global Services Sdn. Bhd. from 16 June 2001 to 31 August 2002; Senior General Manager and Acting Chief Executive Officer of TH Travel & Services Sdn. Bhd. from 1 September 2002 to 16 August 2004. His last position before his retirement was as the Chief Executive Officer of TH Global Services Sdn Bhd from 1 July 2011 to 31 January 2013.

Following his departure from LTH, Tuan Haji Zakariah became the Chief Operating Officer of Kopetro Travel and Tours Sdn Bhd, a subsidiary company of Cooperative of Petronas and retired on 16 May 2014.

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

BOARD OF DIRECTORS

MR. YONG CHEE HOU
Aged 58, Malaysian
Independent Non-Executive Director

Mr. Yong was first appointed to the Board on 11 January 2002. He is also a member of the Audit Committee and Nominating Committee of the Company.

He graduated from the University of Hull, United Kingdom with a Bachelor of Science (Hons) Degree in Economics and Accounting and qualified as a member of the Institute of Chartered Accountants in England and Wales. He is a member of the Malaysian Institute of Accountants.

He has spent over 9 years in the accountancy profession. Mr. Yong also sits on the Boards of several private limited companies in Malaysia.

OTHER INFORMATION ON DIRECTORS

1. FAMILY RELATIONSHIP

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

2. CONFLICT OF INTEREST

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

3. CONVICTIONS OF OFFENCES

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

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2014

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
Tuan Haji Zakariah Bin Yet	5 out of 5	100
Mr. Yong Chee Hou	5 out of 5	100

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Samuel Lim Syn Soo
(Executive Chairman & CEO)
Mr. Kenneth Tan Teoh Khoon
(Executive Director)
Mr. Lim Mee Ing
(Non-Independent Non-Executive Director)
Tuan Haji Zakariah Bin Yet
(Senior Independent Non-Executive Director)
Mr. Yong Chee Hou
(Independent Non-Executive Director)

AUDIT COMMITTEE

Tuan Haji Zakariah Bin Yet
(Chairman)
Mr. Yong Chee Hou
(Member)
Ms. Lim Mee Ing
(Member)

NOMINATING COMMITTEE

Tuan Haji Zakariah Bin Yet
(Chairman)
Mr. Yong Chee Hou
(Member)
Ms. Lim Mee Ing
(Member)

COMPANY SECRETARY

Ms. Leong Oi Wah
(MAICSA 7023802)

REGISTERED OFFICE

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Fax: 03-7806 1387

SHARE REGISTRAR

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47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel: 03-7841 8000
Fax: 03-7841 8008
Email: ssrs@symphony.com.my

AUDITORS

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

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Market

STOCK NAME

KESM

BURSA SECURITIES STOCK NO.

9334

WEBSITE

www.kesmi.com

OTHER INFORMATION

During the financial year under review,

1. UTILISATION OF PROCEEDS RAISED FROM ANY CORPORATE PROPOSAL

there were no proceeds raised from corporate proposal.

2. SHARE BUYBACKS

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

3. OPTIONS OR CONVERTIBLE SECURITIES

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

4. SPONSORED DEPOSITORY RECEIPT PROGRAMME

the Company did not sponsor any depository receipt programme.

5. SANCTIONS AND/OR PENALTIES

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

6. NON-AUDIT FEES

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

7. PROFIT ESTIMATE, FORECAST OR PROJECTION

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

8. PROFIT GUARANTEES

there were no profit guarantees received by the Company.

9. MATERIAL CONTRACTS

there were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests, either still subsisting at the end of the financial year ended 31 July 2014 or entered into since the end of the previous financial year.

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 2014 ("FY 2014").

COMPOSITION

The Committee currently comprises the following directors: -

Chairman	: Tuan Haji Zakariah Bin Yet	*Senior Independent Non-Executive Director*
Members	: Mr. Yong Chee Hou	*Independent Non-Executive Director*
	: Ms. Lim Mee Ing	*Non-Independent Non-Executive Director*

KEY FUNCTIONS, ROLES AND RESPONSIBILITIES

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

The duties of the Committee shall be:

(1) to discuss problems and reservations arising from the interim and final audits, and any matter the auditor may wish to discuss (in the absence of management where necessary).

(2) to review the external auditors' management letter and management response.

(3) to review the following:-

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

AUDIT COMMITTEE'S REPORT

(g) the quarterly results and year end financial statements, prior to the approval by the Board, focusing particularly on:-

(i) changes in or implementation of major accounting policy or practice;

(ii) significant and unusual events;

(iii) significant audit adjustments arising from the audit;

(iv) the going concern assumption; and

(v) compliance with accounting standards, stock exchange and other legal requirements;

(h) any related party transaction and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity;

(i) any letter of resignation from the external auditors of the Company;

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

and report the same to the Board.

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

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

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

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

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

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

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

AUDIT COMMITTEE'S REPORT

MEETINGS AND ATTENDANCE

The Committee met five (5) times in FY 2014. Other Board members, senior management staff and the company secretary attended the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

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

Name of Members	No. of Meetings attended
Tuan Haji Zakariah Bin Yet	5
Mr. Yong Chee Hou	5
Ms. Lim Mee Ing	5

During FY 2014, the Committee met with the external auditors twice, excluding the attendance of other directors and employees to discuss the audited financial statements for the year ended 31 July 2013 and the audit plan for FY 2014.

SUMMARY OF THE ACTIVITIES OF THE COMMITTEE

During FY 2014, the Committee: -

1. reviewed the external auditors' reports in relation to the audit for the year ended 31 July 2013.

2. discussed and recommended the audited financial statements of the Company and of the Group for the year ended 31 July 2013 to be presented to the Board for approval.

3. recommended the re-appointment of the external auditors.

4. reviewed, discussed and recommended the unaudited quarterly results of the Group to be presented to the Board for approval.

5. reviewed and recommended recurrent related party transactions ("RRPT") of the Group to be presented to the Board for ratification and approval.

6. reviewed and approved the internal audit plan.

7. reviewed and discussed the internal auditors' reports.

8. reviewed the external auditors' report on the Statement on Risk Management and Internal Control ("SRMIC") in respect of the financial year ended 31 July 2013 and presented the SRMIC to the Board for approval.

9. reviewed the Committee's report in respect of the financial year ended 31 July 2013 and presented to the Board of Directors for approval.

AUDIT COMMITTEE'S REPORT

10. reviewed the Audit Committee Statement in the Circular to Shareholders in relation to the proposed renewal of the existing shareholders' mandate for RRPT of a revenue or trading nature and the proposed new shareholders' mandate for additional RRPT and recommend to the Board for approval to include the same in the Circular.

11. reviewed the competency and effectiveness of the internal auditors.

12. discussed the audit plan for FY 2014 with the external auditors.

INTERNAL AUDIT ACTIVITIES

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

The total cost incurred for the Group's internal audit function amounted to approximately RM70,000.

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.

The Board is pleased to present this Statement to provide an overview of the corporate governance practices of the Company in respect of the financial year ended 31 July 2014 ("FY 2014"). It outlines the manner in which the Company has complied with the principles and best practices of the Malaysian Code on Corporate Governance 2012 ("Code").

BOARD OF DIRECTORS

Roles and Responsibilities

The Board is responsible for ongoing oversight of the Company. It is responsible for leading and managing the Company and the Group in an effective and responsible manner.

The functions reserved for the Board and those delegated to management have been clearly defined in a Board Charter ("Charter"). The Charter also sets out the strategic intent, key values, principles and ethos of the Company. The Board will periodically review the Charter to ensure that it remains consistent with the Board's objectives, the needs of the Company, applicable laws and practices. An abridged version of the Charter is available on the Company's website at www.kesmi.com.

The role and responsibilities of the Board is to oversee the business and affairs of the Company and to assume the responsibilities and perform the duties stipulated in the Articles of Association of the Company ("Articles"), Companies Act, 1965 ("the Act"), Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") and any applicable rules, laws and regulations. Broadly these include reviewing and adopting the overall strategic plan for the Company and the Group, oversee the conduct of the Company's business, monitor compliance with all relevant statutory and legal obligations, approving the annual budgets, identifying principal risks and ensuring implementation of appropriate risk management and internal control measures, overseeing succession planning of senior management and the development and implementation of a shareholder communication policy, and reviewing the adequacy and integrity of the management information and internal control system.

The senior management, led by the Chief Executive Officer and guided by the approved strategic plans of the Company, develops the operating plans, puts them into actions, monitors actual results against planned performance and implements corrective actions.

The Board is assisted by the following Board committees which operate within clearly defined terms of reference, namely:

- Audit Committee
- Nominating Committee

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 experiences relevant to the Group.

CORPORATE GOVERNANCE STATEMENT

As at the date of this report, the Board comprises five (5) directors, three (3) of whom are non-executive. Of the non-executive directors, two (2) 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 considers its current composition and size to be appropriate and effective, taking into account the nature and scope of the Group's operations and 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.

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 MMLR. Moreover, the Senior Independent Non-Executive Director, Tuan Haji Zakariah Bin Yet, is available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman/CEO.

Although the roles of the Chairman and CEO are combined, the Board is of the view that there are sufficient independent directors, which constitutes one-third of the Board, who are capable of exercising independent judgements for the Board to ensure fair and objective deliberations at Board meetings.

Re-election

In accordance with the Company's Articles, 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.

Tenure of Independent Director

The Code recommends that if the tenure of Independent Director exceeds a cumulative period of nine (9) years, such Director should be re-designated as Non-Independent Director. It also recommends that if the Board desires to retain such re-designated Director as an Independent Director, it may justify and seek the approval of the shareholders.

The Board is of the view that the length of tenure should not be a criterion affecting a director's independence as there are advantages to be gained from the long serving Director who possesses good insight and knowledge of the Company's and Group's business and affairs. The Board, through the Executive Directors, itself will undertake an assessment and decide whether such re-designated Director could be retained as an Independent Director as it believes the Executive Directors who have intimate working relationship amongst the Directors are well placed to ascertain the independence issue instead of the shareholders.

Subsequent to FY 2014, the Board conducted an appraisal on the independence of Mr Yong Chee Hou, an Independent Director who has served for more than nine (9) years. The Board concluded and approved the retention of Mr Yong Chee Hou as an Independent Director of the Company.

CORPORATE GOVERNANCE STATEMENT

Board Meetings

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

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

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

Ethical Standards

The code of conduct of the Company are specified across various forms such as the terms of employment, policies and operating procedures to ensure ethical values are observed throughout the Company.

The Company also has in place a whistle blower policy by which employees may report and raise in good faith and in confidence, any concern about possible improprieties in matters of financial reporting or other matters.

The Company did not make available its code of conduct on its website as the Board is of the view that it is not commercially beneficial to publish such information publicly.

Corporate Social Responsibility and Sustainability

Caring for the Environment

The Company is committed to environmental and resources conservation and has been accredited the ISO 14000 Quality Management. In the Company's daily operations, it continues to carry out recycling programs and promote good practices on energy saving and take measures to reduce wastage.

Social - The Workplace

The Company has long recognised the value of people and remains committed to help its employees develop themselves to their fullest potential. Various in-house training programmes focusing on productivity and job related training were conducted to equip the employees with the required skills and knowledge.

It employs an open door policy and encourages its employees to provide suggestions or feedback on any subject matter, regardless of their position or length of employment.

The Company is an equal opportunity employer and treats all employees fairly, regardless of their race, religion, gender, age, marital status and nationality.

CORPORATE GOVERNANCE STATEMENT

Governance

The Board will continue to evaluate the Group's corporate governance procedures and introduce various measures and implement best practices that are relevant to the Group, bearing in mind the Group's business, size, the changing business landscape, the economic conditions, etc. that have bearing on the Group.

The Company is not making its policy and implementation plans relating to its strategies on sustainability available on its website as the Board is mindful that such information could be commercially sensitive and proprietary in nature.

DIRECTORS' TRAINING

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

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

In FY 2014, Mr Kenneth Tan Teoh Khoon had attended a 1 day seminar titled Advocacy Sessions on Corporate Disclosure for Directors organised by Bursa Malaysia Securities Berhad ("Bursa Securities").

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 ("AC") 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.

The Board is supported by a professionally qualified company secretary who has many years of experience handling public listed companies. Every director has full access to the advice and services of the company secretary. The company secretary and the senior management proactively monitor and guide the Board on the corporate disclosure requirements stipulated in the MMLR to ensure the Company is in compliance and makes timely disclosures.

Where required and in appropriate circumstances, the directors are allow to take professional advice at the Company's expense.

CORPORATE GOVERNANCE STATEMENT

NOMINATING COMMITTEE

The Nominating Committee ("NC") comprises three (3) Non-Executive Directors, two of whom, including the Chairman, are Independent Directors.

The NC has a set of Terms of Reference defining its scope of authority, responsibilities and duties. The NC shall perform the functions specified in the MMLR and the recommendations of the Code, which broadly includes recommending appointment and re-appointment of directors, assessing the effectiveness of the Board and evaluating the Board and Board committees and developing appropriate procedures for evaluation of individual directors.

The NC met once in FY 2014, with full attendance of all members, to carry out the following activities:

- assessed and confirmed the independence of the Independent Directors;
- evaluated the effectiveness of the Board as a whole and the Board Committees;
- assessed the contribution of each individual Director; and
- evaluated the board composition in regards to the mix of its skill;

in respect of their performance for the financial year ended 31 July 2013.

The evaluation criteria used for the assessment of the Board comprised assessment of its structure, operation, its roles and responsibilities and that of the Chairman whereas the Board Committees were assessed based on their composition, contribution to the Board's effectiveness and discharge of their duties. Some of the factors used to evaluate the performance of the individual Director included contribution to interaction, attendance and participation at meetings and decision-making, quality of input as well as understanding of his/her role and responsibilities.

At the meeting, the NC also nominated the re-election of the following retiring Directors namely Messrs Lim Mee Ing and Samuel Lim Syn Soo, pursuant to Article 80 of the Company's Articles of Association.

GENDER DIVERSITY

The Board is not establishing a gender diversity policy or setting any target as it is of the view that appointment of directors should be based strictly on merits and not driven by any nationality, racial or gender bias. Nonetheless, there is currently a female director on the Board.

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 has established remuneration policies and procedures that are formalised in the Charter.

CORPORATE GOVERNANCE STATEMENT

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

Disclosure on directors' remuneration can be found on Note 8 of the audited financial statements included in this Annual Report.

AUDIT COMMITTEE

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

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is outsourced to a reputable international accounting/audit firm. The responsibilities of the internal auditors include conducting audits, submitting findings and the provision of independent reports to the AC 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 Risk Management and 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 AC 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 Act 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.

CORPORATE GOVERNANCE STATEMENT

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 keep 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 Act.

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.

Risk Management and Internal Control

The Statement on Risk Management and Internal Control presented in this Annual Report provides an overview of the main features of the Company's risk management framework and the state of internal controls within the Group.

Relationship with the Auditors

The Company has always maintained a transparent relationship with its external auditors in seeking their professional advice and ensured compliance with the applicable approved accounting standards in Malaysia.

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

The AC has not established policies and procedures to assess the suitability and independence of external auditors but in respect of the audit of FY2014, written assurance was obtained from the external auditors confirming their independence throughout the conduct of the audit engagement.

COMMUNICATION AND RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

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 Bursa Securities via the Bursa Link, press releases, Company's annual reports and circulars to shareholders.

Additionally, the AGM and/or Extraordinary General Meeting ("EGM") provide an opportunity for the shareholders to interact with the Board face-to-face to seek clarifications on any issues and to gain better understanding of the Group's business affairs and performance. At such meetings, the Board always encourages shareholders' active participation. Members of the Board and the external auditors are also present to answer questions raised during the meetings.

CORPORATE GOVERNANCE STATEMENT

Notices of each AGM and EGM are issued in a timely manner to all shareholders. Each item of special business included in the notice of AGM is accompanied by a full explanation of the effects of a proposed resolution to facilitate full understanding and evaluation of issues involved. The Annual Report is sent out to shareholders at least 21 days before the date of the AGM. It provides detailed and comprehensive information on the Group's activities, business and performance over the financial year to help shareholders make informed decisions on their investment in the Company. The Annual Report is also uploaded on the Company's website at www.kesmi.com.

The Code recommends putting substantive resolutions to vote by poll at AGM and encourages electronic poll voting. The Board is of the view that the profile of shareholders and the number of attendees do not warrant the Company to conduct poll voting, especially electronic poll voting, as the cost will outweigh the benefit. In addition, the Board believes that the continued practice of voting by show of hands is unlikely to be prejudicial to the shareholders. When circumstances warrant in the future, the Board will undertake a review to determine if a change in the mode of voting is appropriate.

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 are not disclosed in these exchanges until after the prescribed announcement to Bursa Securities has been made.

Through the Company's website shareholders and members of the public in general also can gain access to updated information about the Company and the Group.

This Statement is made in accordance with the resolution of the Board of Directors dated 9 September 2014.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

The Board of Directors is pleased to present its Statement on Risk Management and Internal Control made pursuant to Paragraph 15.26(b) and Practice Note 9 of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad. In making this Statement, the Board is guided by Principle 6 of the Malaysian Code on Corporate Governance 2012 and the guidelines on the "Statement on Risk Management and Internal Control - Guidelines for Directors of Listed Issuers".

The Statement gives an outline of the nature and scope of risk management and internal control practices of the Group in respect of the financial year ended 31 July 2014 ("FY 2014").

BOARD'S RESPONSIBILITY

The Board oversees the Group's risk management and internal control systems, while the business unit management identifies and assesses the material risks faced by the Group as well as the design, implementation and monitoring of suitable internal controls to mitigate and control these risks. The systems include organisational structure, strategic planning, risk management, financial management, operational control, regulatory and compliance controls to safeguard shareholders' investments, customers' interests and the Group's assets.

The Board acknowledges its responsibility for the Group's overall system of internal control which includes the establishment of an appropriate risk management and control framework as well as reviewing its effectiveness, 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 internal control objectives. Accordingly, it can only provide reasonable and not absolute assurance against material financial misstatement or loss.

The Board is supported in its risk management and internal control oversight responsibilities by: -

- Executive Directors, assisted by corporate management, oversee and endorse risk management and internal control system implementation by business unit management;
- Business unit management – to identify, assess and implement suitable risk management and internal control systems; and
- Audit Committee – for oversight over internal control systems, financials and governance matters.

RISK MANAGEMENT FRAMEWORK

The Group has in place an Enterprise Risk Management ("ERM") framework and processes for identifying, evaluating and managing significant risks faced by the Group.

The Board's responsibilities for the governance of risks and controls include: -

- setting the tone and culture for effective risk management and internal control systems;
- ensuring risk management is embedded in all aspects of the Group's daily business and operational activities and processes;
- endorsing acceptable risk appetite; and
- reviewing the risk management framework, processes and responsibilities to ensure it provides reasonable assurance that risks management has been effective to keep it within tolerable levels.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The Group has in place a detailed risk management process, culminating in a Board review, which identifies the key risks facing each business unit. This information is reviewed by Executive Directors as part of the strategic review and periodical business performance process. Broadly the ERM consists of the following process: -

- policies, guidelines, procedures and documentation on financial, operational, compliance and information technology management;
- review by Executive Directors and corporate management on the Group's key risks and Group's risk register submitted by the business units, and reviewing the execution and management of the risk mitigation strategies by the business units;
- continuing assessments by the Group's internal auditors on the quality of risk management and control, and the reports to the Executive Directors and corporate management, and the Audit Committee on the status of specific areas identified for improvement; and
- assessment on the effectiveness of the risk management process in the Group during the financial year by the Executive Directors and subsequently by the Board.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that internal control system inevitably is intertwined with the Group's operating activities. The key internal control structures the Group has in place 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 review and evaluation of the adequacy and integrity of the Group's internal control systems.

The internal auditors adopt a risk-based approach and prepare 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 business unit management for attention and necessary actions. The business unit 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 RISK MANAGEMENT AND INTERNAL CONTROL

The monitoring and management of the Group is delegated to the Executive Directors and senior operational management. The Executive Directors 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 Directors, to communicate and address significant matters in relation to the Group's business and financial affairs and provide update on significant changes in the business and the external environment which result in significant risks.

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

REVIEW OF THIS STATEMENT

The external auditors had reviewed this Statement pursuant to Recommended Practice Guide 5 Guidance for Auditors on the Review of Directors' Statement on Internal Control and had reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process the Board has adopted in the review of the adequacy and integrity of the system of internal control of the Group.

CONCLUSION

The Board has received assurance from Mr. Samuel Lim Syn Soo, the Executive Chairman and Chief Executive Officer and Mr. Kenneth Tan Teoh Khoon, the Executive Director that the Group's risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management model adopted by the Group.

The Board is of the opinion that the system of risk management and 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 continual effectiveness and adequacy of the system of risk management and internal control of the Group.

This Statement is made in accordance with the resolution of the Board of Directors dated 18 September 2014.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2014.

Principal activities

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

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

Results

	Group RM'000	Company RM'000
Profit net of tax	16,340	3,359
Attributable to:		
Owners of the parent	10,883	3,359
Non-controlling interests	5,457	–
	16,340	3,359

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

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

Dividend

On 29 January 2014, the Company paid a first and final tax exempt dividend of 3 sen (2013: 3 sen) per ordinary share amounting to RM1,290,435 (2013: RM1,290,435), as proposed by the Directors and approved by shareholders in the last annual general meeting of the Company.

At the forthcoming Annual General Meeting, a first and final tax exempt dividend in respect of the financial year ended 31 July 2014, of 3 sen per ordinary share amounting to RM1,290,435 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2015.

DIRECTORS' REPORT

Directors

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

Samuel Lim Syn Soo
Kenneth Tan Teoh Khoon
Lim Mee Ing
Tuan Haji Zakariah Bin Yet
Yong Chee Hou

Directors' benefits

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

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments and fees received or due and receivable by the Directors as shown in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with any Director or with a firm of which the Director is a member or with a company in which the Director has a substantial financial interest, except as disclosed in Note 22 to the financial statements.

Directors' interests

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

	Number of ordinary shares of RM1.00 each			
	At 1.8.2013	Acquired	Sold	At 31.7.2014
Deemed interest				
Samuel Lim Syn Soo	20,825,000	–	–	20,825,000

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

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

DIRECTORS' REPORT

Other statutory information

(a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the Directors took reasonable steps:

  (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that there were no known bad debts and that adequate allowance had been made for doubtful debts; and

  (ii) to ensure that any current assets which were unlikely to realise their values as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected so to realise.

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

  (i) it necessary to write off any bad debts or the amount of allowance for doubtful debts inadequate to any substantial extent in respect of these financial statements; and

  (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.

(c) At the date of this report, the Directors are not aware of any circumstances which have arisen which would render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.

(d) At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

(e) As at the date of this report, there does not exist:

  (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or

  (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 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.

DIRECTORS' REPORT

Auditors

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

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 September 2014.

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 88 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

The information set out in Note 31 to the financial statements on page 89 have been prepared in accordance with the Guidance on Special Matter No.1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the Directors dated 18 September 2014.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

STATUTORY DECLARATION

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

I, Kenneth Tan Teoh Khoon, being the Director primarily responsible for the financial management of KESM Industries Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 32 to 89 are, to the best of my knowledge and belief, correct and I make this solemn declaration by virtue of the provisions of the Statutory Declarations Act, 1960, 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.

Subscribed and solemnly declared by
the abovenamed Kenneth Tan Teoh Khoon
at Kelana Jaya, Selangor
this 18 September 2014

Kenneth Tan Teoh Khoon

Before me,
Najmi Dawami Bin Abdul Hamid @ Mohd Akib
Commissioner for Oaths

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 statements of financial position as at 31 July 2014 of the Group and of the Company, and the statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 32 to 88.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 July 2014 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia.

INDEPENDENT AUDITORS' REPORT

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

Report on other legal and regulatory requirements

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

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

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

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

Other reporting responsibilities

The supplementary information set out in Note 31 to the financial statements on page 89 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

Kua Choh Leang
No. 2716/01/15 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
18 September 2014

STATEMENTS OF COMPREHENSIVE INCOME

For the financial year ended 31 July 2014

	Note	Group 2014 RM'000	Group 2013 RM'000	Company 2014 RM'000	Company 2013 RM'000
Revenue	4	254,365	247,605	64,260	59,619
Other items of income					
Interest income	5	3,142	2,532	1,842	2,386
Dividend income		176	344	176	344
Other income		3,042	6,320	2,088	3,543
Items of expense					
Raw materials and consumables used		(38,501)	(50,761)	(830)	(849)
Changes in work-in-progress and finished goods		(1,113)	(985)	–	–
Employee benefits expense	6	(84,068)	(76,683)	(28,519)	(25,707)
Depreciation of property, plant and equipment	11	(53,720)	(54,903)	(10,828)	(11,627)
Finance costs	7	(2,248)	(2,182)	(795)	(1,517)
Other expenses		(61,271)	(57,263)	(23,357)	(23,406)
Profit before tax	8	19,804	14,024	4,037	2,786
Income tax expense	9	(3,464)	(4,583)	(678)	(591)
Profit net of tax		16,340	9,441	3,359	2,195
Other comprehensive income:					
Items to be reclassified subsequently to profit or loss					
Foreign currency translation		438	2,120	–	–
Other comprehensive income for the year, net of tax		438	2,120	–	–
Total comprehensive income for the year		16,778	11,561	3,359	2,195
Profit attributable to:					
Owners of the parent		10,883	4,569	3,359	2,195
Non-controlling interests		5,457	4,872	–	–
		16,340	9,441	3,359	2,195
Total comprehensive income attributable to:					
Owners of the parent		11,321	6,689	3,359	2,195
Non-controlling interests		5,457	4,872	–	–
		16,778	11,561	3,359	2,195
Earnings per share attributable to owners of the parent					
- Basic	10	25.3 sen	10.6 sen		

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

STATEMENTS OF FINANCIAL POSITION

As at 31 July 2014

	Note	Group 2014 RM'000	Group 2013 RM'000	Company 2014 RM'000	Company 2013 RM'000
Assets					
Non-current assets					
Property, plant and equipment	11	156,495	135,662	27,179	31,542
Investment in subsidiaries	12	–	–	43,533	43,533
Deferred tax assets	20	4,747	5,114	1,698	1,878
Other receivables	14	–	–	–	7,521
		161,242	140,776	72,410	84,474
Current assets					
Inventories	13	11,589	16,035	133	141
Trade and other receivables	14	65,432	59,542	35,947	40,854
Prepayments		1,278	1,454	463	717
Tax recoverable		332	618	–	–
Investment securities	15	7,660	8,029	7,660	8,029
Cash and bank balances	16	139,368	139,227	43,410	40,046
		225,659	224,905	87,613	89,787
Total assets		386,901	365,681	160,023	174,261
Equity and liabilities					
Equity attributable to owners of the parent					
Share capital	17	43,015	43,015	43,015	43,015
Reserves	18	202,444	192,413	92,024	89,955
		245,459	235,428	135,039	132,970
Non-controlling interests		36,093	30,636	–	–
Total equity		281,552	266,064	135,039	132,970
Non-current liabilities					
Loans and borrowings	19	36,772	37,560	2,379	16,353
Deferred tax liabilities	20	2,395	2,762	1,262	1,442
		39,167	40,322	3,641	17,795
Current liabilities					
Trade and other payables	21	28,732	28,888	6,974	6,961
Loans and borrowings	19	37,141	29,954	14,240	16,318
Income tax payable		309	453	129	217
		66,182	59,295	21,343	23,496
Total liabilities		105,349	99,617	24,984	41,291
Total equity and liabilities		386,901	365,681	160,023	174,261

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 July 2014

		Attributable to owners of the parent							
			Non-distributable		Distributable	Non-distributable			
	Equity, total RM'000	Equity attributable to owners of the parent, total RM'000	Share capital (Note 17) RM'000	Share premium (Note 18) RM'000	Retained earnings (Note 18) RM'000	Other reserves, total RM'000	Foreign currency translation reserve (Note 18) RM'000	Statutory reserve fund (Note 18) RM'000	Non - controlling interest RM'000
Group									
At 1 August 2012	255,793	230,029	43,015	663	182,887	3,464	2,559	905	25,764
Total comprehensive income	11,561	6,689	–	–	4,569	2,120	2,120	–	4,872
Transaction with owners									
Transfer to statutory reserve fund	–	–	–	–	(1,529)	1,529	–	1,529	–
Dividend (Note 28)	(1,290)	(1,290)	–	–	(1,290)	–	–	–	–
Total transactions with owners	(1,290)	(1,290)	–	–	(2,819)	1,529	–	1,529	–
At 31 July 2013	266,064	235,428	43,015	663	184,637	7,113	4,679	2,434	30,636
Total comprehensive income	16,778	11,321	–	–	10,883	438	438	–	5,457
Transaction with owners									
Transfer to statutory reserve fund	–	–	–	–	(887)	887	–	887	–
Dividend (Note 28)	(1,290)	(1,290)	–	–	(1,290)	–	–	–	–
Total transactions with owners	(1,290)	(1,290)	–	–	(2,177)	887	–	887	–
At 31 July 2014	281,552	245,459	43,015	663	193,343	8,438	5,117	3,321	36,093

		Non-distributable		Distributable	Non-distributable	
	Equity, total RM'000	Share capital (Note 17) RM'000	Share premium (Note 18) RM'000	Retained earnings (Note 18) RM'000	Other reserves, total RM'000	Merger relief reserve (Note 18) RM'000
Company						
At 1 August 2012	132,065	43,015	663	87,172	1,215	1,215
Total comprehensive income	2,195	–	–	2,195	–	–
Transaction with owners						
Dividend (Note 28)	(1,290)	–	–	(1,290)	–	–
At 31 July 2013	132,970	43,015	663	88,077	1,215	1,215
Total comprehensive income	3,359	–	–	3,359	–	–
Transaction with owners						
Dividend (Note 28)	(1,290)	–	–	(1,290)	–	–
At 31 July 2014	135,039	43,015	663	90,146	1,215	1,215

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

STATEMENTS OF CASH FLOWS

For the financial year ended 31 July 2014

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Operating activities				
Profit before tax	19,804	14,024	4,037	2,786
Adjustments for:				
Depreciation of property, plant and equipment	53,720	54,903	10,828	11,627
Loss/(gain) on disposal of property, plant and equipment	9	(47)	(130)	(157)
Gain on disposal of assets held for sale	–	(329)	–	(329)
Gain on disposal of investment securities held for trading	(327)	(1,039)	(327)	(1,039)
Plant and equipment written off	94	6	10	4
Net fair value (gain)/loss on investment securities held for trading	(165)	1,936	(165)	1,936
Unrealised exchange loss/(gain)	1,441	(858)	(40)	(75)
(Reversal of impairment loss)/ impairment loss on trade receivables	(48)	67	–	–
Inventories written down	279	160	–	–
Dividend income	(176)	(344)	(176)	(344)
Interest income	(3,142)	(2,532)	(1,842)	(2,386)
Finance costs	2,248	2,182	795	1,517
Operating cash flows before working capital changes	73,737	68,129	12,990	13,540
Changes in working capital:				
Decrease in inventories	4,167	4,379	8	42
(Increase)/decrease in prepayment, trade and other receivables	(5,666)	5,806	13,340	12,927
Decrease in trade and other payables	(4,140)	(18,720)	(264)	(348)
Cash generated from operations	68,098	59,594	26,074	26,161
Income taxes paid	(3,297)	(3,536)	(766)	(287)
Interest paid	(2,248)	(2,182)	(795)	(1,517)
Interest received	3,142	2,532	1,842	2,386
Net cash generated from operating activities	65,695	56,408	26,355	26,743

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

STATEMENTS OF CASH FLOWS

For the financial year ended 31 July 2014

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Investing activities				
Proceeds from disposal of investment securities	861	1,705	861	1,705
Dividend income	176	344	176	344
Purchase of property, plant and equipment	(70,753)	(32,679)	(6,212)	(2,415)
Proceeds from disposal of property, plant and equipment	9	51	130	157
Proceeds from disposal of assets held for sale	–	750	–	750
Net cash (used in)/generated from investing activities	(69,707)	(29,829)	(5,045)	541
Financing activities				
Repayment of obligations under finance leases	(1,948)	(2,338)	(652)	(671)
Repayment of term loans	(28,350)	(26,818)	(16,004)	(19,919)
Proceeds from term loans	36,025	29,624	–	–
Dividends paid on ordinary shares	(1,290)	(1,290)	(1,290)	(1,290)
Net cash generated from/(used in) financing activities	4,437	(822)	(17,946)	(21,880)
Net increase in cash and cash equivalents	425	25,757	3,364	5,404
Effects of exchange rate changes on cash and cash equivalents	(284)	(286)	–	–
Cash and bank balances at beginning of year	139,227	113,756	40,046	34,642
Cash and bank balances at end of year (Note 16)	139,368	139,227	43,410	40,046

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

1. Corporate information

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

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 1965 in Malaysia.

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

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

2.2 Changes in accounting policies

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

On 1 August 2013, the Group and the Company adopted the following new and amended MFRSs and IC Interpretations mandatory for annual financial periods beginning on or after 1 August 2013.

- Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income
- MFRS 3 Business Combinations (IFRS 3 Business Combinations issued by IASB in March 2004)
- MFRS 127 Consolidated and Separate Financial Statements (IAS 27 revised by IASB in December 2003)
- MFRS 10 Consolidated Financial Statements
- MFRS 11 Joint Arrangements
- MFRS 12 Disclosure of Interests in Other Entities
- MFRS 13 Fair Value Measurement
- MFRS 119 Employee Benefits (IAS 19 as amended by IASB in June 2011)
- MFRS 127 Separate Financial Statements (IAS 27 as amended by IASB in May 2011)
- MFRS 128 Investment in Associate and Joint Ventures (IAS 28 as amended by IASB in May 2011)
- Amendments to MFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.2 Changes in accounting policies (cont'd.)

- Annual Improvements 2009-2011 Cycle
- Amendments to MFRS 1: Government Loans
- Amendments to MFRS 10, MFRS 11 and MFRS 12: Consolidated Financial Statements, Joint Arrangements, and Disclosure of Interests of Other Entities: Transition Guidance
- IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and of the Company except for those discussed below:

MFRS 12 Disclosure of Interests in Other Entities

MFRS 12 includes all disclosure requirements for interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are required. This standard affects disclosures only and has no impact on the Group's financial position or performance.

MFRS 13 Fair Value Measurement

MFRS 13 establishes a single source of guidance under MFRS for all fair value measurements. MFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under MFRS. MFRS 13 defines fair value as an exit price. MFRS 13 also requires additional disclosures.

Application of MFRS 13 has not materially impacted the fair value measurement of the Group and of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Amendments to MFRS 101: Presentation of Items of Other Comprehensive Income

The amendments to MFRS 101 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position and performance.

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

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

Effective for annual periods beginning on or after 1 January 2014

- Amendments to MFRS 132: Offsetting Financial Assets and Financial Liabilities
- Amendments to MFRS 10, MFRS 12 and MFRS 127: Investment Entities
- Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to MFRS 139: Novation of Derivatives and Continuation of Hedge Accounting
- IC Interpretation 21 Levies
- Amendments to MFRS 119: Defined Benefit Plans: Employee Contributions
- Annual Improvements to MFRSs 2010-2012 Cycle
- Annual Improvements to MFRSs 2011-2013 Cycle

Effective for annual periods beginning on or after 1 January 2016

- Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- MFRS 14 Regulatory Deferral Accounts
- Amendments to MFRS 116 and MFRS 138: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to MFRS 116 and MFRS 141: Agriculture: Bearer Plants

Effective for annual periods beginning on or after 1 January 2017

- MFRS 15 Revenue from Contracts with Customers

Effective for annual periods to be announced

- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in November 2009)
- MFRS 9 Financial Instruments (IFRS 9 issued by IASB in October 2010)
- MFRS 9 Financial Instruments: Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139

The directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

Amendments to MFRS 132 : Offsetting Financial Assets and Financial Liabilities

The amendments provide clarification and application guidance on legally enforceable right to set-off the financial assets and financial liabilities. These amendments are not expected to have any impact to the Group's and the Company's financial position or performance, which will be effective for annual period beginning on or after 1 January 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

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

MFRS 9 Financial Instruments

MFRS 9 reflects the first phase of work on the replacement of MFRS 139 and applies to classification and measurement of financial assets and financial liabilities as defined in MFRS 139. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to MFRS 9: Mandatory Effective Date of MFRS 9 and Transition Disclosures, issued in March 2012, moved the mandatory effective date to 1 January 2015. Subsequently, on 14 February 2014, it was announced that the new effective date will be decided when the project is closer to completion.

The adoption of the first phase of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Amendments to MFRS 136: Recoverable Amount Disclosures for Non-Financial Assets

These amendments remove the unintended consequences of MFRS 13 Fair Value Measurement on the disclosures required under MFRS 136 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units ("CGUs") for which an impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted.

2.4 Basis of consolidation

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

The Company controls an investee if and only if the Company has all the following:

(i) power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);
(ii) exposure, or rights, to variable returns from its investment with the investee; and
(iii) the ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intra-group balances, income and expenses, and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.4 Basis of consolidation (cont'd.)

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.5 Transactions with non-controlling interests

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

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

2.6 Functional and foreign currency

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.6 Functional and foreign currency (cont'd.)

(iii) Foreign operations

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

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

2.7 Property, plant and equipment

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

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

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

Capital work-in-progress are not depreciated as these assets are not yet available for use.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.8 Impairment of non-financial assets

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

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

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

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

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

2.9 Subsidiaries

A subsidiary is an entity over which the Group has all the following:

(i) power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);
(ii) exposure, or rights, to variable returns from its investment with the investee; and
(iii) the ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries are accounted for 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.10 Financial assets

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

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

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

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

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

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

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

(ii) Loans and receivables

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.10 Financial assets (cont'd.)

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

2.11 Impairment of financial assets

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

(i) Trade and other receivables

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.12 Inventories

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

- direct materials: purchase costs on a weighted average basis;
- consumables: purchase costs on a first-in first-out basis; and
- finished goods: cost of direct materials and labour, and a proportion of manufacturing overheads based on normal operating capacity.

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

2.13 Cash and cash equivalents

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

2.14 Financial liabilities

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

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

Other financial liabilities

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.14 Financial liabilities (cont'd)

Other financial liabilities (cont'd)

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

2.15 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.16 Borrowing costs

Borrowing costs are capitalised as part of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditure and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

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

2.17 Employee benefits

(i) Short term benefits

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

(ii) Defined contribution plans

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.17 Employee benefits (cont'd.)

(iii) Employee leave entitlement

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

2.18 Leases

(i) As lessee - finance lease

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

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

(ii) As lessee - operating lease

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

(iii) As lessor - finance lease

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in Note 2.19.

2.19 Revenue

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.19 Revenue (cont'd.)

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Dividend income

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

(iv) Rental income

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

2.20 Income taxes

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.20 Income taxes (cont'd.)

(ii) Deferred tax (cont'd.)

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

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

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

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

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

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

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

2.21 Segment reporting

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.22 Share capital and share issuance expenses

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

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

2.23 Contingencies

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

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

2.24 Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

2.25 Fair value measurements

The Group measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 24.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3. Significant accounting estimates and judgements

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

3.1 Key sources of estimation uncertainty

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

3.1 Key sources of estimation uncertainty (cont'd.)

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

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

(ii) Impairment of loans and receivables

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

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount in trade receivables of the Group which has been past due but not impaired amounted to RM5,630,000 (2013: RM6,490,000).

3.2 Judgements made in applying accounting policies

The following are the judgements made by the management in the process of applying the Group's accounting policies that had the most significant effect on the amounts recognised in the financial statements.

Deferred tax assets

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

4. Revenue

Revenue of the Group and of the Company consists of burn-in, testing services and electronic manufacturing services.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

5. Interest income

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interest income from:				
- Deposits with licensed banks	3,099	2,532	1,003	983
- Loans to subsidiaries	–	–	839	1,403
- Others	43	–	–	–
	3,142	2,532	1,842	2,386

6. Employee benefits expense

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Wages and salaries	72,856	66,114	26,391	23,604
Contributions to defined contribution plans	2,678	2,583	890	833
Social security contributions	4,535	3,777	102	101
Short term accumulating compensated absences	(43)	(9)	5	(32)
Other benefits	4,042	4,218	1,131	1,201
	84,068	76,683	28,519	25,707

The above employee benefits expense excludes directors' remunerations.

7. Finance costs

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Interest expense on:				
- Term loans	1,960	1,889	735	1,455
- Obligations under finance leases	171	176	60	62
- Loan from a corporate shareholder	117	117	–	–
	2,248	2,182	795	1,517

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

8. Profit before tax

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Profit before tax is arrived at:				
After charging:				
Auditors' remunerations				
- Statutory audit	301	292	103	102
- Non-audit services	5	5	5	5
Loss on disposal of property, plant and equipment	9	–	–	–
Directors' remuneration	1,363	1,324	1,243	1,206
Rental of equipment	182	135	–	–
Rental of factory	2,189	2,136	1,399	1,392
Utilities	25,294	22,456	9,308	8,485
Repairs and maintenance	14,903	12,982	4,161	3,422
Inventories written down	279	160	–	–
Net fair value loss on investment securities held for trading	–	1,936	–	1,936
Plant and equipment written off	94	6	10	4
Impairment of trade receivables	–	67	–	–
Net foreign exchange loss	342	–	2	–
and crediting:				
Gain on disposal of property, plant and equipment	–	47	130	157
Gain on disposal of assets held for sale	–	329	–	329
Gain on disposal of investment securities held for trading	327	1,039	327	1,039
Reversal of sundry payables	2,355	2,952	–	399
Net fair value gain on investment securities held for trading	165	–	165	–
Rental income from premises	–	–	1,405	1,405
Reversal of impairment loss on trade receivables	48	–	–	–
Net foreign exchange gain	–	1,855	–	97

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

8. Profit before tax (cont'd.)

Information on Directors' remuneration is as follows:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Directors' remuneration				
In respect of the Company's Directors:				
Executive:				
- Fees	163	163	63	63
- Salaries and other emoluments	1,036	969	1,036	969
	1,199	1,132	1,099	1,032
Non-executive:				
- Fees	150	176	130	158
- Allowances	14	16	14	16
	164	192	144	174
Total Directors' remuneration	1,363	1,324	1,243	1,206

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

	Group Number of Directors	
	2014	2013
Executive Directors:		
RM500,001 to RM550,000	–	1
RM550,001 to RM600,000	1	–
RM600,001 to RM650,000	1	1
Non-executive Directors:		
Less than RM50,000	1	2
RM50,001 to RM100,000	2	2

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

9. Income tax expense

Major components of income tax expense:

The major components of income tax expense for the years ended 31 July 2014 and 2013 are:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current income tax:				
- Malaysian income tax	1,131	1,349	650	640
- Foreign tax	2,173	2,116	–	–
- Under/(over) provision in respect of prior years	160	875	28	(49)
	3,464	4,340	678	591
Deferred income tax (Note 20):				
- Origination and reversal of temporary differences	(504)	(465)	(319)	(562)
- Under provision in prior years	504	708	319	562
	–	243	–	–
Income tax expense recognised in profit or loss	3,464	4,583	678	591

Reconciliation between tax expense and accounting profit:

The reconciliation between tax expense and product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 July 2014 and 2013 is as follows:

	Group	
	2014 RM'000	2013 RM'000
Profit before tax	19,804	14,024
Tax at Malaysian statutory tax rate of 25% (2013: 25%)	4,951	3,506
Adjustments:		
Income not subject to taxation	(406)	(725)
Non-deductible expenses	872	1,165
Utilisation of previously unrecognised reinvestment allowance	–	(1,763)
Deferred tax asset recognised on unutilised reinvestment allowance	(4,774)	(2,233)
Deferred tax asset not recognised	2,157	3,050
Under provision of income tax expense in prior years	160	875
Under provision of deferred tax in prior years	504	708
Income tax expense recognised in profit and loss	3,464	4,583

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

9. Income tax expense (cont'd.)

Reconciliation between tax expense and accounting profit: (cont'd.)

	Company	
	2014 RM'000	2013 RM'000
Profit before tax	4,037	2,786
Tax at Malaysian statutory tax rate of 25% (2013: 25%)	1,009	697
Adjustments:		
Income not subject to tax	(321)	(641)
Non-deductible expenses	416	1,031
Utilisation of previously unrecognised reinvestment allowance	–	(792)
Deferred tax asset recognised on unutilised reinvestment allowance	(773)	(217)
Under/(over) provision of income tax expense in prior years	28	(49)
Under provision of deferred tax in prior years	319	562
Income tax expense recognised in profit and loss	678	591

Domestic current income tax is calculated at the Malaysian statutory tax rate of 25% (2013: 25%) of the estimated assessable profit for the year. The domestic statutory tax rate will be reduced to 24% in the year of assessment 2016.

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

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

Tax savings during the financial year arising from:

	Group	
	2014 RM'000	2013 RM'000
Utilisation of previously recognised reinvestment allowance	902	–
Utilisation of previously unrecognised reinvestment allowance	–	1,763

The Group has the following reinvestment allowance and business losses that are available indefinitely for offsetting against future taxable profits of the companies in which they arose:

	Group	
	2014 RM'000	2013 RM'000
Reinvestment allowance	90,711	93,150
Business losses	5,321	5,297

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

10. Earnings per share

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

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

	Group	
	2014 RM'000	2013 RM'000
Profit attributable to owners of the parent	10,883	4,569
	Number '000	Number '000
Weighted average number of ordinary shares in issue	43,015	43,015
Basic earnings per share	25.3 sen	10.6 sen

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

11. Property, plant and equipment

	Buildings RM'000	Leasehold land RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Group								
At 31 July 2014								
At Cost								
At 1 August 2013	21,525	6,200	15,336	550,873	1,615	9,219	6,525	611,293
Additions	–	–	124	62,237	–	619	10,988	73,968
Disposals	–	–	(8)	(6,790)	–	(84)	–	(6,882)
Write off	–	–	(99)	(26,598)	–	(100)	–	(26,797)
Reclassification	–	–	5,543	5,368	–	371	(11,282)	–
Exchange differences	–	–	120	1,170	1	25	61	1,377
At 31 July 2014	21,525	6,200	21,016	586,260	1,616	10,050	6,292	652,959
Accumulated depreciation and impairment losses								
At 1 August 2013	9,104	1,138	10,592	446,720	1,064	7,013	–	475,631
Depreciation charge for the year	2,125	134	2,107	48,150	167	1,037	–	53,720
Disposals	–	–	(8)	(6,786)	–	(70)	–	(6,864)
Write off	–	–	(93)	(26,521)	–	(89)	–	(26,703)
Exchange differences	–	–	59	609	1	11	–	680
At 31 July 2014	11,229	1,272	12,657	462,172	1,232	7,902	–	496,464
Analysed as follows:								
Accumulated depreciation	11,229	1,272	12,555	461,160	1,232	7,875	–	495,323
Accumulated impairment losses	–	–	102	1,012	–	27	–	1,141
	11,229	1,272	12,657	462,172	1,232	7,902	–	496,464
Net carrying amount	10,296	4,928	8,359	124,088	384	2,148	6,292	156,495

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

	Buildings RM'000	Leasehold land RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Group (cont'd.)								
At 31 July 2013								
At Cost								
At 1 August 2012	21,525	6,200	12,819	519,578	1,683	8,835	13,943	584,583
Additions	–	–	185	34,237	–	602	2,782	37,806
Disposals	–	–	-	(16,310)	(73)	(350)	–	(16,733)
Write off	–	–	-	(104)	–	(255)	(709)	(1,068)
Reclassification	–	–	1,837	7,969	–	269	(10,075)	–
Exchange differences	–	–	495	5,503	5	118	584	6,705
At 31 July 2013	21,525	6,200	15,336	550,873	1,615	9,219	6,525	611,293
Accumulated depreciation and impairment losses								
At 1 August 2012	6,979	1,004	7,996	410,208	946	6,469	708	434,310
Depreciation charge for the year	2,125	134	2,230	49,157	187	1,070	–	54,903
Disposals	–	–	–	(16,307)	(73)	(349)	–	(16,729)
Write off	–	–	–	(103)	–	(251)	(708)	(1,062)
Exchange differences	–	–	366	3,765	4	74	–	4,209
At 31 July 2013	9,104	1,138	10,592	446,720	1,064	7,013	–	475,631
Analysed as follows:								
Accumulated depreciation	9,104	1,138	10,490	445,708	1,064	6,986	–	474,490
Accumulated impairment losses	–	–	102	1,012	–	27	–	1,141
	9,104	1,138	10,592	446,720	1,064	7,013	–	475,631
Net carrying amount	12,421	5,062	4,744	104,153	551	2,206	6,525	135,662

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

	Buildings RM'000	Leasehold land RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Company								
At 31 July 2014								
At Cost								
At 1 August 2013	10,035	3,500	2,130	130,268	777	3,497	443	150,650
Additions	–	–	20	4,292	–	479	1,684	6,475
Disposals	–	–	–	(3,015)	–	–	–	(3,015)
Write off	–	–	–	(4,684)	–	(20)	–	(4,704)
Reclassification	–	–	–	343	–	71	(414)	–
At 31 July 2014	10,035	3,500	2,150	127,204	777	4,027	1,713	149,406
Accumulated depreciation and impairment losses								
At 1 August 2013	4,209	560	1,846	109,301	321	2,871	–	119,108
Depreciation charge for the year	971	70	138	9,165	128	356	–	10,828
Disposals	–	–	–	(3,015)	–	–	–	(3,015)
Write off	–	–	–	(4,684)	–	(10)	–	(4,694)
At 31 July 2014	5,180	630	1,984	110,767	449	3,217	–	122,227
Analysed as follows:								
Accumulated depreciation	5,180	630	1,984	110,127	449	3,206	–	121,576
Accumulated impairment losses	–	–	–	640	–	11	–	651
	5,180	630	1,984	110,767	449	3,217	–	122,227
Net carrying amount	4,855	2,870	166	16,437	328	810	1,713	27,179

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

	Buildings RM'000	Leasehold land RM'000	Leasehold improvements RM'000	Plant, machinery and test equipment RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers RM'000	Capital work-in-progress RM'000	Total RM'000
Company (cont'd.)								
At 31 July 2013								
At Cost								
At 1 August 2012	10,035	3,500	2,084	133,741	777	3,480	2,858	156,475
Additions	–	–	46	3,625	–	271	443	4,385
Disposals	–	–	–	(9,143)	–	–	–	(9,143)
Write off	–	–	–	(105)	–	(254)	(708)	(1,067)
Reclassification	–	–	–	2,150	–	–	(2,150)	–
At 31 July 2013	10,035	3,500	2,130	130,268	777	3,497	443	150,650
Accumulated depreciation and impairment losses								
At 1 August 2012	3,238	490	1,696	108,554	190	2,811	708	117,687
Depreciation charge for the year	971	70	150	9,993	131	312	–	11,627
Disposals	–	–	–	(9,143)	–	–	–	(9,143)
Write off	–	–	–	(103)	–	(252)	(708)	(1,063)
At 31 July 2013	4,209	560	1,846	109,301	321	2,871	–	119,108
Analysed as follows:								
Accumulated depreciation	4,209	560	1,846	108,661	321	2,860	–	118,457
Accumulated impairment losses	–	–	–	640	–	11	–	651
	4,209	560	1,846	109,301	321	2,871	–	119,108
Net carrying amount	5,826	2,940	284	20,967	456	626	443	31,542

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

(i) Assets held under finance leases

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Plant, machinery and test equipment	3,274	4,241	961	1,279
Motor vehicles	328	457	328	457
	3,602	4,698	1,289	1,736

(ii) Assets acquisition

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Cash payments	70,753	32,679	6,212	2,415
Finance leases	68	4,432	–	1,588
Financed by creditors	3,147	695	263	382
	73,968	37,806	6,475	4,385

(iii) Assets pledged as security

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

12. Investment in subsidiaries

	Company	
	2014 RM'000	2013 RM'000
Unquoted shares, at costs	43,533	43,533

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

12. Investment in subsidiaries (cont'd.)

Details of the subsidiaries are as follows:

Name of Company	Country of incorporation	Principal activities	Proportion of ownership interest 2014 %	Proportion of ownership interest 2013 %
KESP Sdn Bhd*	Malaysia	Provision of semiconductor burn-in services and electronic manufacturing services	100.00	100.00
KESM Test (M) Sdn Bhd*	Malaysia	Provision of semiconductor testing services	65.38	65.38
KESM Industries (TianJin) Co., Ltd. ^	China	Provision of semiconductor burn-in and testing services	100.00	100.00

* Audited by Ernst & Young, Malaysia

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

(a) Material partly-owned subsidiary

Proportion of equity interest held by material non-controlling interest of the Group is as follows:

Name of Company	Country of incorporation	Proportion of ownership interest 2014 %	Proportion of ownership interest 2013 %
KESM Test (M) Sdn Bhd ("KRTM")	Malaysia	34.62	34.62

Summarised financial information of KRTM is set out below and the amount is before inter-company eliminations.

(i) Summarised statement of financial position

	2014 RM'000	2013 RM'000
Total assets	171,437	134,647
Total liabilities	67,182	46,155
Net assets	104,255	88,492
Equity attributable to:		
Owners of the parent	68,162	57,856
Non-controlling interests	36,093	30,636
	104,255	88,492

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

12. Investment in subsidiaries (cont'd.)

(a) Material partly-owned subsidiary (cont'd.)

(ii) Summarised statement of comprehensive income

	2014 RM'000	2013 RM'000
Revenue	68,489	57,958
Profit for the year, representing total comprehensive income for the year	15,763	14,072
Profit attributable to:		
Owners of the parent	10,306	9,200
Non-controlling interests	5,457	4,872
	15,763	14,072

(iii) Summarised statement of cash flows

	2014 RM'000	2013 RM'000
Net cash generated from operating activities	28,956	13,564
Net cash used in investing activities	(59,634)	(27,941)
Net cash generated from financing activities	23,157	22,789
Net (decrease)/increase in cash and cash equivalents	(7,521)	8,412
Effects of foreign exchange rate changes	(41)	–
Cash and bank balances at beginning of year	69,795	61,383
Cash and bank balances at end of year	62,233	69,795

13. Inventories

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Raw materials	6,533	10,283	–	–
Consumables	3,645	3,229	133	141
Work-in-progress	408	1,426	–	–
Finished goods	1,003	1,097	–	–
Total inventories at lower of cost and net realisable value	11,589	16,035	133	141

During the year, the amount of inventories recognised as an expense are disclosed as a separate line in the statements of comprehensive income of the Group and of the Company. Included in the expense is inventories written down of the Group of RM279,000 (2013: RM160,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

14. Trade and other receivables

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current				
Trade receivables				
Third parties	70,352	64,863	14,387	13,746
Less: Allowance for impairment	(7,225)	(7,151)	–	–
	63,127	57,712	14,387	13,746
Other receivables				
Refundable deposits	1,257	974	500	500
Sundry receivables	1,040	856	287	35
Amounts due from subsidiaries	–	–	10,521	10,518
Loans to subsidiaries	–	–	10,245	16,055
Amounts due from related parties	8	–	7	–
	2,305	1,830	21,560	27,108
	65,432	59,542	35,947	40,854
Non-current				
Other receivables				
Loans to subsidiaries	–	–	–	7,521
Total trade and other receivables (current and non-current)	65,432	59,542	35,947	48,375
Add: Cash and bank balances (Note 16)	139,368	139,227	43,410	40,046
Total loans and receivables	204,800	198,769	79,357	88,421

(i) Trade receivables

Trade receivables are non-interest bearing and are generally on 30 to 95 days (2013: 30 to 95 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

14. Trade and other receivables (cont'd.)

(i) Trade receivables (cont'd.)

Ageing analysis of trade receivables

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Neither past due nor impaired	57,497	51,222	13,536	13,046
Past due not impaired				
- 1 to 30 days	5,321	5,167	851	650
- 31 to 60 days	172	489	–	50
- 61 to 90 days	15	500	–	–
- 91 to 120 days	22	11	–	–
- More than 121 days	100	323	–	–
	5,630	6,490	851	700
Impaired	7,225	7,151	–	–
	70,352	64,863	14,387	13,746

Receivables that are neither past due nor impaired

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

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

Receivables that are past due but not impaired

The Group's and the Company's trade receivables which are past due but not impaired, amounting to RM5,630,000 (2013: RM6,490,000) and RM851,000 (2013: RM700,000) respectively, and are unsecured.

These amounts are deemed as collectible as they are customers still in active trade with the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

14. Trade and other receivables (cont'd.)

(i) Trade receivables (cont'd.)

Receivables that are impaired

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

	Group	
	2014 RM'000	2013 RM'000
Trade receivables (gross)	7,225	7,151
Less: Allowance for impairment	(7,225)	(7,151)
	–	–
Movement in allowance account:		
At beginning of year	7,151	6,967
(Reversal)/charge for the year (Note 8)	(48)	67
Exchange difference	122	117
At end of year	7,225	7,151

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

(ii) Related party receivables

Amounts due from subsidiaries are unsecured, non-interest bearing and repayable upon demand. Loans to subsidiaries are unsecured, bear interests between 4.5% and 8.5% (2013: between 4.5% and 8.5%) per annum and repayable upon demand except for a total amount of RM7,650,000 which is due in 2015.

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

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
United States Dollar ("USD")	8,109	7,804	17,637	31,034
Ringgit Malaysia ("RM")	37,953	34,092	18,310	17,341
Renminbi ("RMB")	18,289	16,360	–	–
Others	1,081	1,286	–	–
	65,432	59,542	35,947	48,375

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

15. Investment securities

	Group/Company	
	2014 RM'000	2013 RM'000
Investments held for trading		
Equity investments (quoted in Malaysia), at fair value	7,660	8,029

16. Cash and bank balances

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Deposits with licensed banks	117,549	117,487	40,129	36,439
Cash at banks	21,819	21,740	3,281	3,607
	139,368	139,227	43,410	40,046

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
USD	5,513	3,722	1,675	2,043
RM	123,454	123,056	41,735	38,003
Others	10,401	12,449	–	–
	139,368	139,227	43,410	40,046

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between seven days and three months (2013: between seven days and three months), depending on the immediate cash requirements of the Group and of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates as at 31 July 2014 for the Group and the Company were 2.6% (2013: 2.4%) and 2.6% (2013: 2.9%) respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

17. Share capital

	Group/Company			
	Number of ordinary shares of RM1 each		Amount	
	2014 '000	2013 '000	2014 RM'000	2013 RM'000
Authorised share capital:				
At beginning/end of year	50,000	50,000	50,000	50,000
Issued and fully paid:				
At beginning/end of year	43,015	43,015	43,015	43,015

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

18. Reserves

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Distributable:				
Retained earnings	193,343	184,637	90,146	88,077
Non-distributable:				
Share premium	663	663	663	663
Statutory reserve fund	3,321	2,434	–	–
Merger relief reserve	–	–	1,215	1,215
Foreign currency translation reserve	5,117	4,679	–	–
	202,444	192,413	92,024	89,955

(i) Retained earnings

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

18. Reserves (cont'd.)

(i) Retained earnings (cont'd.)

The Company did not elect for the irrevocable option to disregard the 108 balance. Accordingly, during the transitional period, the Company may utilise the credit in the 108 balance to distribute cash dividend payments to ordinary shareholders as defined under the Finance Act 2007. As at 31 July 2013, the Company had sufficient credit in the 108 balance to pay franked dividends amounting to RM25,100,000 out of its retained earnings. Any 108 balance which has not been utilised as at 31 December 2013 is disregarded. Thereafter, the Company may distribute dividends out of its entire retained earnings under the single tier system.

As at reporting date, the Company has credit in the tax exempt account to distribute tax exempt dividends of approximately RM81,609,000 (2013: RM78,834,000).

(ii) Foreign currency translation reserve

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

(iii) Statutory reserve fund

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

(iv) Merger relief reserve

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

19. Loans and borrowings

		Group		Company	
	Maturity	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current					
Secured:					
Obligations under finance leases (Note 23)	2015	1,856	1,942	638	653
Term loans	2015	35,285	28,012	13,602	15,665
		37,141	29,954	14,240	16,318
Non-current					
Secured:					
Obligations under finance leases (Note 23)	2016	557	2,351	125	762
Term loans	2016-2017	34,841	33,835	2,254	15,591
		35,398	36,186	2,379	16,353
Unsecured:					
Other loan		1,374	1,374	–	–
		36,772	37,560	2,379	16,353
Total loans and borrowings					
Obligations under finance leases (Note 23)		2,413	4,293	763	1,415
Term loans		70,126	61,847	15,856	31,256
Other loan		1,374	1,374	–	–
		73,913	67,514	16,619	32,671
The remaining maturities of the loans and borrowings as at 31 July are as follows:					
Within one year		37,141	29,954	14,240	16,318
More than one year and less than five years		35,398	36,186	2,379	16,353
Five years and more		1,374	1,374	–	–
		73,913	67,514	16,619	32,671

The carrying amounts of total loans and borrowings are denominated in the following currencies:

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
USD	15,857	28,966	15,856	28,966
RM	58,056	38,548	763	3,705
	73,913	67,514	16,619	32,671

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

19. Loans and borrowings (cont'd.)

Term loans are secured by way of:

(i) first party pledge over certain of the Group's and of the Company's plant and equipment with carrying amount of RM65,920,000 (2013: RM42,597,000) and RM1,290,000 (2013: RM8,110,000), respectively, as referred to in Note 11(iii);

(ii) negative pledge; and

(iii) corporate guarantee provided by the Company.

The secured term loans of the Group and of the Company bear interests between 2.69% and 6.60% per annum (2013: 2.51% and 6.60% per annum) during the financial year.

Other loan represents an unsecured loan obtained from a substantial corporate shareholder, Sunright Limited. This loan bears interest at 8.5% per annum (2013: 8.5% per annum) during the financial year and is not expected to be repaid in the next 12 months.

20. Deferred tax (assets)/liabilities

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
At beginning of year	(2,352)	(2,590)	(436)	(436)
Recognised in profit or loss (Note 9)	–	243	–	–
Exchange differences	–	(5)	–	–
At end of year	(2,352)	(2,352)	(436)	(436)
Presented after appropriate offsetting as follows:				
Deferred tax assets	(4,747)	(5,114)	(1,698)	(1,878)
Deferred tax liabilities	2,395	2,762	1,262	1,442
	(2,352)	(2,352)	(436)	(436)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

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

	Property, plant and equipment RM'000	Revaluation surplus RM'000	Others RM'000	Total RM'000
Deferred tax liabilities of the Group				
At 1 August 2012	–	2,533	181	2,714
Recognised in profit or loss	1,503	211	(163)	1,551
At 31 July 2013	1,503	2,744	18	4,265
Recognised in profit or loss	4,039	(349)	(8)	3,682
At 31 July 2014	5,542	2,395	10	7,947

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
Deferred tax assets of the Group				
At 1 August 2012	(1,512)	(820)	(2,972)	(5,304)
Recognised in profit or loss	358	(2,233)	567	(1,308)
Exchange differences	–	–	(5)	(5)
At 31 July 2013	(1,154)	(3,053)	(2,410)	(6,617)
Recognised in profit or loss	(93)	(4,165)	576	(3,682)
At 31 July 2014	(1,247)	(7,218)	(1,834)	(10,299)

	Revaluation surplus RM'000	Others RM'000	Total RM'000
Deferred tax liabilities of the Company			
At 1 August 2012	1,028	180	1,208
Recognised in profit or loss	396	(162)	234
At 31 July 2013	1,424	18	1,442
Recognised in profit or loss	(162)	(8)	(170)
At 31 July 2014	1,262	10	1,272

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
Deferred tax assets of the Company				
At 1 August 2012	(423)	(820)	(401)	(1,644)
Recognised in profit or loss	(180)	(217)	163	(234)
At 31 July 2013	(603)	(1,037)	(238)	(1,878)
Recognised in profit or loss	140	31	(1)	170
At 31 July 2014	(463)	(1,006)	(239)	(1,708)

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

	Group	
	2014 RM'000	2013 RM'000
Unutilised reinvestment allowance	61,839	80,938
Unutilised business losses	3,385	3,221
Property, plant and equipment	54,522	43,489
Other deductible temporary differences	7,311	7,174
Total deferred tax asset not recognised	127,057	134,822
Deferred tax at 25% (2013: 25%), if recognised	31,764	33,706

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

21. Trade and other payables

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Current				
Trade payables				
Third parties	5,571	6,408	29	28
Amounts due to related parties	304	49	9	49
Other payables				
Accrued operating expenses	7,650	7,157	2,901	4,021
Sundry payables	11,267	13,201	3,266	1,735
Balance due for acquisitions of property, plant and equipment	3,147	695	263	382
Amounts due to related parties	793	1,378	506	746
Total current trade and other payables	28,732	28,888	6,974	6,961
Add: Loans and borrowings (Note 19)	73,913	67,514	16,619	32,671
Total financial liabilities carried at amortised cost	102,645	96,402	23,593	39,632

(i) Trade payables are non-interest bearing. They are normally settled on 30 - 60 days (2013: 30 - 60 days) terms.

(ii) Sundry payables are non-interest bearing. They are normally settled on 30 - 60 days (2013: 30 - 60 days) terms.

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

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
USD	4,756	4,262	235	514
RM	17,046	18,768	6,324	5,877
RMB	5,774	3,924	–	–
Others	1,156	1,934	415	570
	28,732	28,888	6,974	6,961

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

22. Related party transactions

(i) Sales and purchase of goods and services

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Transactions with Sunright Limited, a corporate shareholder in which certain Directors have financial interests, and its subsidiaries				
Management fees charged by Sunright Limited	4,758	5,183	2,392	2,197
Interest on loan from Sunright Limited	117	117	–	–
Sales to:				
- KES Systems & Service (1993) Pte Ltd	375	251	–	–
- KES Systems, Inc.	1,614	42	–	–
Purchases from:				
- KES Systems & Service (1993) Pte Ltd	1,334	788	119	788
- Kestronics (M) Sdn Bhd	39	3	39	3
- KES Systems, Inc.	–	405	–	235
- KEST Systems & Service Ltd	545	–	12	–

	Company	
	2014 RM'000	2013 RM'000
Transactions with subsidiaries		
Rental income from a subsidiary for rent of a factory	1,405	1,405
Interest income on loan to a subsidiary	839	1,403
Sales of equipment and other consumables to a subsidiary	130	256

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

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.

(ii) Compensation of key management personnel

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

23. Commitments

(i) Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group 2014 RM'000	Group 2013 RM'000	Company 2014 RM'000	Company 2013 RM'000
Property, plant and equipment				
Authorised and contracted for	60,051	3,999	190	653
Authorised but not contracted for	6,814	2	–	–
	66,865	4,001	190	653

(ii) Finance lease commitments

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

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

	Group 2014 RM'000	Group 2013 RM'000	Company 2014 RM'000	Company 2013 RM'000
Minimum lease payments:				
Not later than one year	1,982	2,112	696	712
After one year and not later than five years	608	2,524	137	833
Total minimum lease payments	2,590	4,636	833	1,545
Less: Amounts representing finance charges	(177)	(343)	(70)	(130)
Present value of minimum lease payments	2,413	4,293	763	1,415
Present value of payments:				
Not later than one year (Note 19)	1,856	1,942	638	653
After one year and not later than five years (Note 19)	557	2,351	125	762
Present value of minimum lease payments (Note 19)	2,413	4,293	763	1,415

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

24. Fair value of financial instruments

A. Financial instruments that are carried at fair value

All assets and liabilities for which fair value is disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

	Note	Group/Company Quoted prices in active markets (Level 1) 2014 RM'000	2013 RM'000
Financial assets:			
Held for trading investments			
- Investment securities (quoted)	15	7,660	8,029

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

25. Financial risk management objectives and policies

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

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

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

(i) Interest rate risk

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

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

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

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

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's profit net of tax would have been RM124,000 (2013: RM113,000) higher/lower, arising mainly as a result of lower/higher interest expenses on floating loans and borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

(ii) Foreign currency risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

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

Sensitivity analysis for foreign currency risk

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

		Group		Company	
		2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
USD/RM	- strengthened 1% (2013: 1%)	(52)	(163)	24	27
	- weakened 1% (2013: 1%)	52	163	(24)	(27)
USD/RMB	- strengthened 1% (2013: 1%)	(133)	(231)	–	–
	- weakened 1% (2013: 1%)	133	231	–	–

(iii) Liquidity risk

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

Analysis of financial instruments by remaining contractual maturities

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

	2014 RM'000			
	On demand or within one year	One to five years	Over five years	Total
Group				
Financial liabilities:				
Trade and other payables (Note 21)	28,732	–	–	28,732
Loans and borrowings	40,333	37,528	1,968	79,829
Total undiscounted financial liabilities	69,065	37,528	1,968	108,561
Company				
Financial liabilities:				
Trade and other payables (Note 21)	6,974	–	–	6,974
Loans and borrowings	14,765	2,402	–	17,167
Total undiscounted financial liabilities	21,739	2,402	–	24,141

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

(iii) Liquidity risk (cont'd.)

	2013 RM'000			
	On demand or within one year	One to five years	Over five years	Total
Group				
Financial liabilities:				
Trade and other payables (Note 21)	28,888	–	–	28,888
Loans and borrowings	32,583	38,602	1,968	73,153
Total undiscounted financial liabilities	61,471	38,602	1,968	102,041
Company				
Financial liabilities:				
Trade and other payables (Note 21)	6,961	–	–	6,961
Loans and borrowings	17,327	16,915	–	34,242
Total undiscounted financial liabilities	24,288	16,915	–	41,203

(iv) Credit risk

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

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

Exposure to credit risk

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

- the carrying amount of each class of financial assets recognised in the statements of financial position; and
- a nominal amount of RM22,473,000 (2013: RM22,473,000) relating to a corporate guarantee provided by the Company to the banks on the subsidiaries' bank loans. As at the reporting date, there was no indication that any subsidiary would default on repayment. The corporate guarantees provided to financiers for subsidiaries are considered not likely to crystallise.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

(iv) Credit risk (cont'd.)

Credit risk concentration profile

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

	2014		2013	
	RM'000	% of total	RM'000	% of total
Group				
By country:				
Malaysia	38,896	62	35,783	62
Others *	24,231	38	21,929	38
	63,127	100	57,712	100

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

	2014		2013	
	RM'000	% of total	RM'000	% of total
By industry sectors:				
Burn-in, testing and electronic manufacturing services	63,127	100	57,712	100

The Company has trade receivables located in Malaysia amounting to approximately RM14,203,000 (2013: RM13,478,000) out of total trade receivables of RM14,387,000 (2013: RM13,746,000).

At the reporting date, approximately:

- 88% (2013: 87%) of the Group's trade receivables were due from 5 (2013: 5) major customers who are major players in the semiconductor industry; and
- 4% (2013: less than 1%) of the Group's trade and other receivables were due from related parties.

Financial assets that are neither past due nor impaired

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

(v) Market price risk

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

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

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

Sensitivity for equity price risk

At the reporting date, if the FTSE Bursa Malaysia KLCI had been 5% (2013: 5%) higher/lower, with all other variables held constant, the Group's profit net of tax would have been RM96,000 (2013: RM100,000) higher/lower, arising as a result of higher/lower fair value gains on investments in equity instruments held for trading.

26. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 July 2014 and 31 July 2013.

As disclosed in Note 18, a subsidiary of the Group is required by the Foreign Enterprise Law of the People's Republic of China ("PRC") to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above mentioned subsidiary for the financial year ended 31 July 2014.

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

26. Capital management (cont'd.)

	Note	Group 2014 RM'000	Group 2013 RM'000
Loans and borrowings	19	73,913	67,514
Less: Cash and bank balances	16	(139,368)	(139,227)
Net cash		(65,455)	(71,713)
Equity attributable to owners of the parent		245,459	235,428
Less: Statutory reserve fund	18	(3,321)	(2,434)
		242,138	232,994
Capital and net cash		176,683	161,281

27. Segment information

The Group has only one operating segment, burn-in, testing and electronic manufacturing services, which is evaluated regularly by management in deciding how to allocate resources and in assessing performance of the Group.

Investment holding segment which comprises Group-level corporate services, treasury functions and investment in marketable securities, and consolidation adjustments which are not directly attributable to the burn-in, testing and electronic manufacturing services segment, is not significant to be separately reported and evaluated by management.

Geographical segments

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

	Revenue 2014 RM'000	Revenue 2013 RM'000	Non-current assets 2014 RM'000	Non-current assets 2013 RM'000
Malaysia	196,324	198,609	128,678	95,351
People's Republic of China	58,041	48,996	27,817	40,311
	254,365	247,605	156,495	135,662

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

Information about major customers

The Group's customer base includes one (2013: one) customer from burn-in, testing and electronic manufacturing segment, with whom transactions have exceeded 10% of the Group's revenue. In the financial year 2014, revenues generated from this customer amounted to approximately RM166,608,000 (2013: RM147,570,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

28. Dividend

	Group	
	2014 RM'000	**2013 RM'000**
Recognised during the financial year:		
First and final tax exempt dividend for 2013: 3 sen (2012: 3 sen) per ordinary share	1,290	1,290
Proposed but not recognised as a liability as at 31 July:		
First and final tax exempt dividend for 2014: 3 sen (2013: 3 sen) per ordinary share	1,290	1,290

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2014, of 3 sen on 43,014,500 ordinary shares, amounting to dividend payable of RM1,290,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2015.

29. Material litigation

The Company's wholly-owned subsidiary, KESP Sdn Bhd ("KESP") had on 8 May 2013 received a Demand for Arbitration from the International Centre for Dispute Resolution, a division of the American Arbitration Association ("AAA"). The Demand relates to an arbitration commenced by one of KESP's customers for a dispute arising out of a contract dated 21 November 2008 between the customer and KESP for the supply of utility products. The customer alleged that it received defective products from KESP and is entitled to claim US$5,000,000. KESP adamantly denies the allegations and intends to vigorously defend itself at arbitration and to pursue its own rights, including counterclaiming against the customer for non-payment of amounts owed under the contract of at least US$2,100,000.

On 26 September 2013, the customer had filed a voluntary petition for liquidation under Chapter 7 in the U.S. Bankruptcy Court in Dallas, Texas. The AAA then agreed with KESP's solicitors that the arbitration will be stayed until the bankruptcy court trustee for the customer determines whether to pursue with the arbitration.

As at the reporting date, no adjustment was made to the financial statements as there is no material impact on the earnings and net assets of the Group for the financial year ended 31 July 2014.

30. Authorisation of financial statements for issue

The financial statements for the year ended 31 July 2014 were authorised for issue in accordance with a resolution of the directors on 18 September 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 July 2014

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

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

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

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

	Group		Company	
	2014 RM'000	2013 RM'000	2014 RM'000	2013 RM'000
Total retained earnings of the Company and its subsidiaries				
- realised	225,669	210,014	86,540	84,599
- unrealised	4,041	6,182	3,606	3,478
	229,710	216,196	90,146	88,077
Less: Consolidation adjustments	(36,367)	(31,559)	–	–
Retained earnings as per financial statements	193,343	184,637	90,146	88,077

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

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

SHAREHOLDERS' INFORMATION

As at 30 September 2014

ANALYSIS OF SHAREHOLDINGS

Authorized share capital	:	RM50,000,000.00
Issued and paid-up capital	:	RM43,014,500.00
Type of shares	:	Ordinary shares of RM1.00 each
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Holdings	Total Holdings	%
15	Less than 100	400	0.00
177	100 to 1,000 shares	150,200	0.35
754	1,001 to 10,000 shares	3,133,450	7.28
194	10,001 to 100,000 shares	6,084,850	14.15
26	100,001 to less than 5% of issued shares	10,637,400	24.73
2	5% and above of issued shares	23,008,200	53.49
1,168	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

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

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

	Number of Shares Held				
	Name of Director	Direct	%	Deemed Interest	%
1.	Samuel Lim Syn Soo	-	-	20,825,000*	48.41
2.	Kenneth Tan Teoh Khoon	-	-	-	-
3.	Lim Mee Ing	-	-	-	-
4.	Tuan Haji Zakariah Bin Yet	-	-	-	-
5.	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 2014.

SHAREHOLDERS' INFORMATION

As at 30 September 2014

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Citigroup Nominees (Asing) Sdn Bhd Exempt An for Citigroup Global Markets Inc (Prime Finc Clr)	2,183,200	5.08
3.	Wong Tee Kim @ Wong Tee Fatt	2,150,000	4.99
4.	Tan Kong Hong Alex	2,057,500	4.78
5.	DB (Malaysia) Nominee (Asing) Sdn Bhd Deutsche Bank Ag Singapore for British and Malayan Trustees Limited (Yeoman 3-Rights)	1,500,000	3.49
6.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim Kong Hwee (E-Sly/Sgk)	464,300	1.08
7.	Tan Kim Hin	400,000	0.93
8.	Tan Jin Tuan	387,000	0.90
9.	Maybank Nominees (Tempatan) Sdn Bhd Heng Peng Heng	290,000	0.67
10.	Chau Tai Chuon	287,000	0.67
11.	Soon Hoe Chuan	250,200	0.58
12.	Yong Loy Huat	250,000	0.58
13.	Public Nominees (Tempatan) Sdn Bhd Pledged securities account for Lim Kong Hwee (E-Sly/Sgk)	235,700	0.55
14.	Amsec Nominees (Tempatan) Sdn Bhd Pledged securities account for Khoo Ching Thye	228,700	0.53
15.	Lim Khuan Eng	220,000	0.51
16.	Lee Kok Hin	203,600	0.47
17.	Affin Hwang Nominees (Asing) Sdn Bhd DBS Vickers Secs (S) Pte Ltd for Lim Mee Hwa	200,000	0.46
18.	Alliancegroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Teoh Hui Peng	190,100	0.44
19.	CIMSEC Nominees (Asing) Sdn Bhd Exempt An for CIMB Securities (Singapore) Pte Ltd (Retail Clients)	184,500	0.43
20.	Heng Peng Hong	162,700	0.38
21.	Citigroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Lay Chong	152,700	0.35
22.	Follow Me Industries Sdn Bhd	132,800	0.31
23.	Heng Peng Heng	130,000	0.30
24.	Jf Apex Nominees (Tempatan) Sdn Bhd Pledged securities account for Teo Siew Lai (Margin)	116,800	0.27
25.	Lee Ah Beng	115,400	0.27
26.	Lim Ching Wah	113,000	0.26
27.	Denver Corporation Sdn Bhd	110,800	0.26
28.	Citigroup Nominees (Tempatan) Sdn Bhd Pledged securities account for Tan Lay Harng (472751)	104,600	0.24
29.	CIMSEC Nominees (Temptatan) Sdn Bhd Pledged securities account for Lim Chen Yik (Penang-CL)	100,000	0.23
30.	HLIB Nominees (Tempatan) Sdn Bhd Hong Leong Bank Bhd for Tan Chong Meng	100,000	0.23
	TOTAL	33,845,600	78.68

GROUP PROPERTIES

As at 31 July 2014

Location	Description/ Existing use	Date of Last Revaluation	Tenure	Approximate Land Area/ Built-up Area (sq m)	Approximate Age Of Building (Years)	Net Book Value (RM'000)
KESM Industries Berhad						
Lot 4, Kawasan MIEL Phase 1 Sungei Way Free Industrial Zone Jalan SS8/4 Selangor Darul Ehsan	Industrial land/ Factory and Office premises	28 Apr 2009	Leasehold for 99 years expiring on 30 Oct 2100	5,064/ Phase I – 2,315 Phase II – 3,169 Phase III – 3,345	Phase I - 18 Phase II - <16 Phase III - <17	2,870/ Phase I – 867 Phase II – 1,480 Phase III – 2,507
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 – 22 Phase II – 18 Phase III – 15	2,057/4,988
42-17-19 Desa Green Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	25	53
15-4-7 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	22	49
15-7-4 Kota Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	22	49
Block 16-3A-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	21	53
Block 18-9-11 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	21	60
33-11-21 Taman Pekaka Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	18	58
Block 16-1-3 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	21	66
Block 18-6-5 Taman Seri Nibong Penang	3-bedroom apartment/ employees' hostel	25 May 2009	Freehold	65.03	21	66

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 43rd Annual General Meeting of the Company will be held at Spectrum and Prism, Level 3A, CONNEXION @ NEXUS, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Malaysia on Thursday, 15 January 2015 at 10.30 a.m. for the following purposes: -

AGENDA

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 July 2014 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 2014. — Resolution 2

3. To approve payment of Directors' fees in respect of the financial year ended 31 July 2014. — 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) Tuan Haji Zakariah Bin Yet — 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. To transact any other business which may be properly transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act, 1965 and the Company's Articles of Association.

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

Petaling Jaya
29 October 2014

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint proxy(ies) who may but need not be 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.

NOTICE OF ANNUAL GENERAL MEETING

3. The instrument appointing proxy(ies) shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

4. The instrument appointing proxy(ies) must be deposited at the Registered Office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.

5. Depositors whose name appear in the Record of Depositors on 9 January 2015 shall be regarded as member of the Company entitled to attend the 43rd Annual General Meeting or appoint proxy(ies) to attend and vote on his/her behalf.

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 2014, if approved at the forthcoming Annual General Meeting, will be paid on 17 February 2015 to Depositors registered in the Record of Depositors on 29 January 2015. 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 29 January 2015, in respect of ordinary transfers; and

b) Shares bought on Bursa Malaysia Securities Berhad ("Bursa Securities") on a cum entitlement basis according to the Rules of Bursa Securities.

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

Petaling Jaya
29 October 2014

PROXY FORM

KESM INDUSTRIES BERHAD (13022-A)

I/We ____(Full Name in Block Letters)

NRIC/Passport No.:____________________of ______________________________

____(Address)

being a member/members of KESM Industries Berhad, hereby appoint

Name	Address	NRIC / Passport No.	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC / Passport No.	Proportion of Shareholdings (%)

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, and if necessary, to demand a poll, at the 43rd Annual General Meeting of the Company to be held at Spectrum and Prism, Level 3A, CONNEXION @ NEXUS, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Malaysia on Thursday, 15 January 2015 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 summarised 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 Tuan Haji Zakariah Bin Yet as Director		
5.	Re-election of Mr Kenneth Tan Teoh Khoon as Director		
6.	Re-appointment of Auditors		

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

Total Number of Shares Held	

Signed this __________ day of _______________ 2014 / 2015

____
Signature(s)/Common Seal of Shareholder(s)

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint proxy(ies) 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 proxy(ies) shall be in writing under the hand of the appointor or his/her attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing proxy(ies) must be deposited at the Registered Office at 802, 8th Floor, Block C, Kelana Square, 17 Jalan SS7/26, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, at least forty-eight (48) hours before the time appointed for holding the Meeting or any adjournment thereof.
5. Depositors whose name appear in the Record of Depositors on 9 January 2015 shall be regarded as member of the Company entitled to attend the 43rd Annual General Meeting or appoint proxy(ies) to attend and vote on his/her behalf.

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The Company Secretary
KESM INDUSTRIES BERHAD (13022-A)
802, 8th Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA

Fold here

A Member of

SUNRIGHT

KESM INDUSTRIES BERHAD (13022-A)
Lot 4, SS 8/4
Sungei Way Free Trade Industrial Zone
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