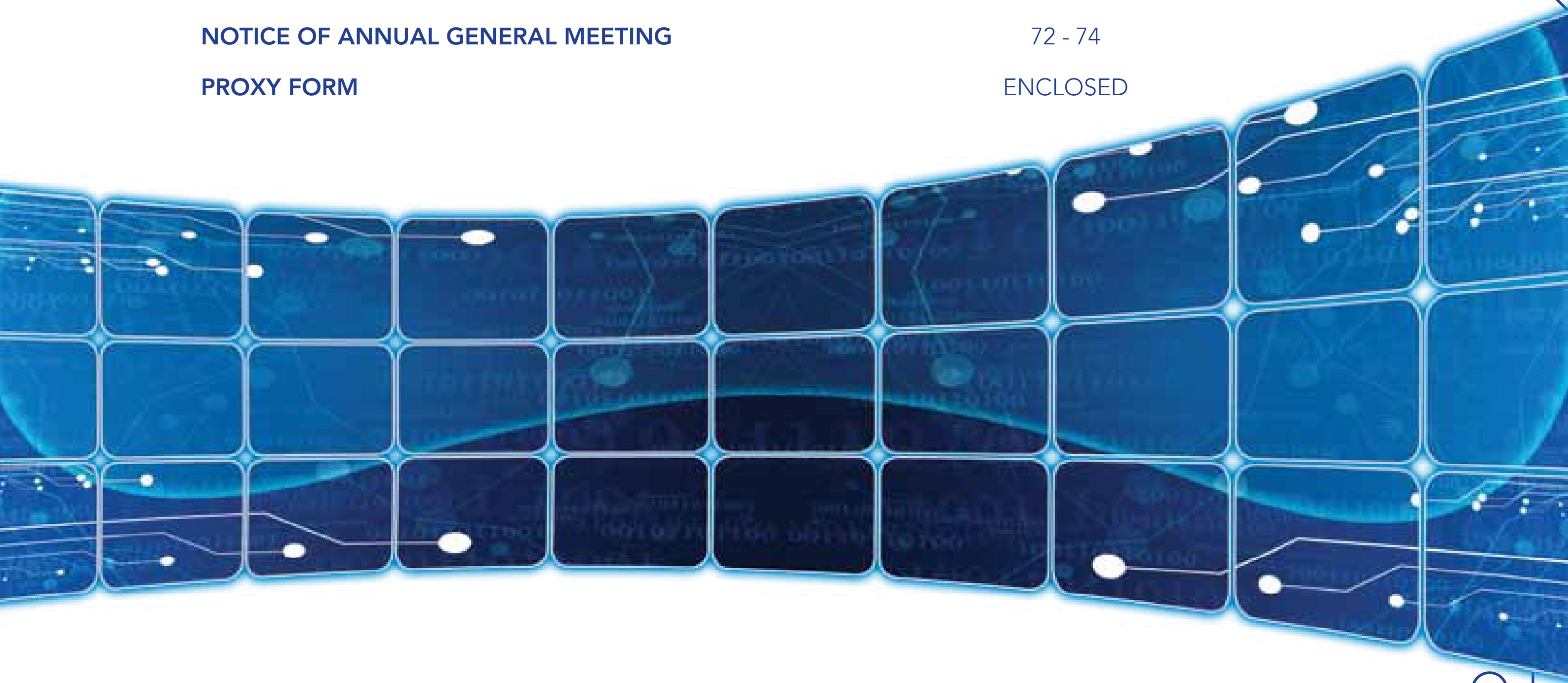
Annual Report 2010

ELSOFT RESEARCH

ELSOFT RESEARCH BERHAD (617504-K)

CONTENTS



CORPORATE STRUCTURE

Elsoft was incorporated in Malaysia under the Companies Act, 1965 on 4 June 2003 as a private limited company under the name of Elsoft Research Sdn Bhd. Subsequently, on 10 August 2004 it was converted to a public limited company and since then assumed its present name.

The details of the Elsoft Group are as follows:

Corporation	Date/Place of Incorporation	Issued and Paid–up Share Capital RM	Effective Equity Interest %	Principal Activities
Elsoft Research Berhad ("Elsoft")	04.06.2003/ Malaysia	18,113,200	–	Research, design and development of test and burn-in systems and application specific embedded systems.
Subsidiaries/Associated Company of Elsoft				
Siangtronics Technology Sdn Bhd ("STSB")	07.05.1996/ Malaysia	500,000	100.00	Electronic devices/modules assembly, test and burn-in system integration and customised manufacturing solutions.
AGS Automation (Malaysia) Sdn Bhd ("AGS")	03.11.1999/ Malaysia	500,000	100.00	Design and production of specialised machinery and equipment namely material handling equipment and robotic factory automation equipment.
Leso Corporation Sdn Bhd ("LESO")	02.05.2006/ Malaysia	6,000,000	30.00	Investment holding, research, development, commercialisation and service maintenance of Video Inspection and Measuring Software Solutions (VIMS).

The structure of the Group is as set out below:

ELSOFT RESEARCH

ELSOFT RESEARCH BERHAD (617504-K)
Research, Design and Development of Test and Burn-In Systems and Application Specific Embedded Systems

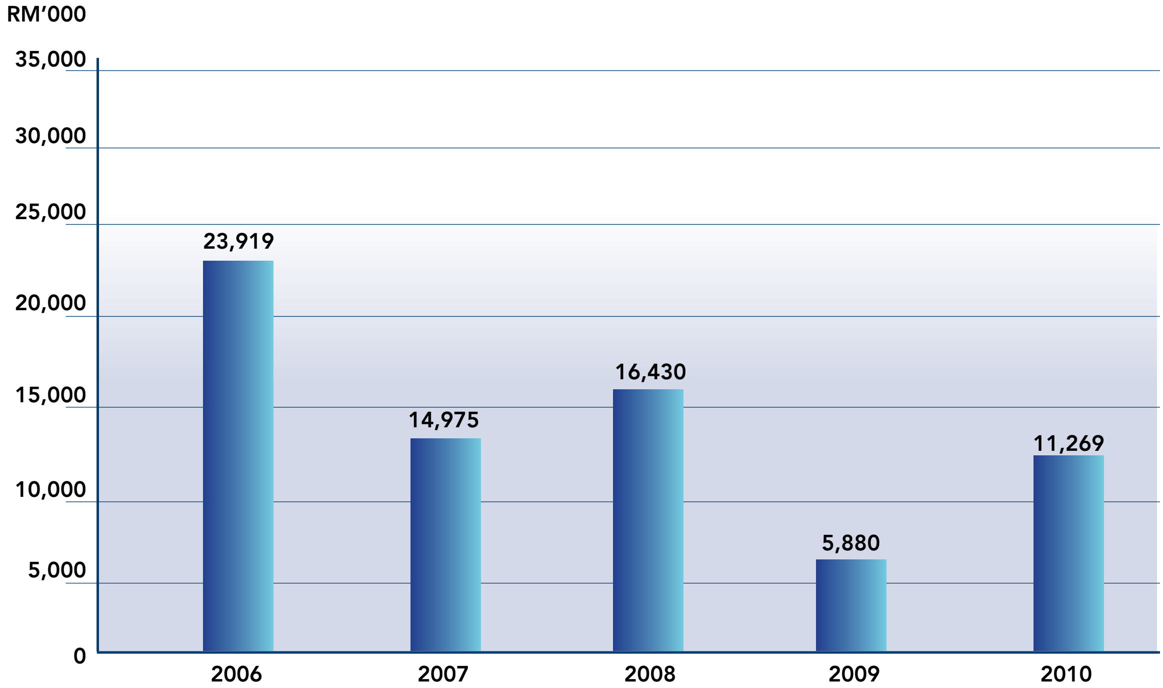
100% - STSB
Electronic Devices/Modules Assembly, Test and Burn-In System Integration and Customised Manufacturing Solutions

100% - AGS
Design and Production of Specialised Machinery and Equipment

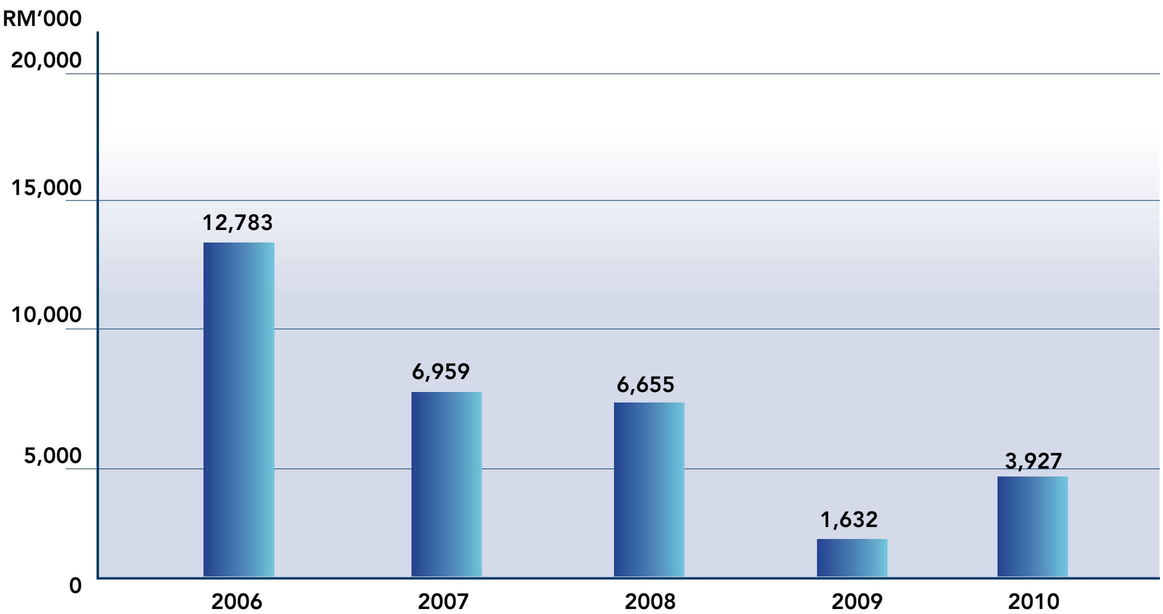
30% - Leso
Investment Holding, Research, Development, Commercialisation and Service Maintenance of Video Inspection and Measuring Software Solutions (VIMS)

FINANCIAL HIGHLIGHTS

	Group 2006 RM'000	Group 2007 RM'000	Group 2008 RM'000	Group 2009 RM'000	Group 2010 RM'000
Revenue	23,919	14,975	16,430	5,880	11,269
Profit before Taxation	12,862	7,028	6,731	1,724	4,005
Profit after Taxation after MI	12,783	6,959	6,655	1,632	3,927
No. of shares assumed in issue (in Milllion)	180,200	180,836	181,132	181,132	181,132
Earnings per Share (in Sen)	7.15	3.85	3.67	0.90	2.17



Revenue



Profit After Taxation After MI

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Elsoft Research Berhad, I am pleased to present to you the Annual Report of the Company for the financial year ended 31 December 2010.

Economic Overview

After the economic slowdown in 2009, the 2010 financial year kicked off with significantly higher sales during the first quarter with encouraging orders as global markets made a major rebound, spurred by the exceptional economic performance of the emerging economies, especially in the Asian region and the aggressive stimulus packages implemented by governments worldwide. However, the global economy softened in the second quarter of 2010 due in part to weak global trading and coupled with the sovereign debt crisis in the Euro zone countries, resulting in lower orders during the period. For the second half of the year, we saw recovery in sales with increasing orders in tandem with the improved consumer sentiment and recovery from the semiconductor industry. According to the World Semiconductor Trade Statistics ("WSTS"), the semiconductor market rebounded from a 9.0% decline in revenue in 2009 to reach worldwide revenue of USD300.4 billion in 2010, up by an estimated 32.7% from 2009.

Financial Performance

Against the backdrop of the global economic recovery, the Group saw the return of demand from its customers. This effectively provided the impetus for a remarkable improvement in the financial performance of the Group.

For the financial year ended 31 December ("FYE") 2010, the Group posted higher revenue of RM11.27 million, representing an increase of RM5.39 million or 91.67% from the previous financial year of RM5.88 million. On the back of this revenue, the Group recorded a higher profit after taxation of RM3.93 million, an increase of RM2.35 million or 148.73% as compared to RM1.58 million registered in the previous financial year.

Our balance sheet continued to strengthen. As at 31 December 2010, our shareholders' equity increased by 4.98% to RM47.43 million, while our cash and short-term investments stood at RM26.39 million. We do not have any bank borrowings as at 31 December 2010.

Corporate Development

At the Annual General Meeting of the Company held on 21 June 2010, the shareholders of the Company have approved the renewal of authority for the purchase by the Company of its own ordinary shares of up to 10% of its issued and paid-up share capital. During the second quarter of the year, the Company had purchased 10,000 of its own issued ordinary shares from the open market at an average price of RM0.55 per share.

In 2010, the Group continues to place emphasis in the development of test systems for optoelectronics applications. During the year, we invested in the development of more unique and cost competitive measurement capabilities to expand and enhance on our existing product offerings. We have also implemented cost-savings initiatives to reduce our spending. This initiative effectively reduced our operational costs and we achieved a significant improvement in our gross profit margin which has increased from 24.88% recorded in the previous financial year to 40.82% in this financial year.

Dividend

In appreciation of our shareholders' continued support, the Board has declared and paid an interim tax-exempt dividend of 10 percent, equivalent to 1 sen per share on 22 September 2010.

Research and Development ("R&D")

In FYE 2010, we continue to carry out our R&D efforts and activities as planned and in line with the market's needs and technological advances. We believe that R&D is an essential component of our business to stay ahead of our competitors and in driving the business growth and improving operational efficiency. At Elsoft, we focus on the development of new product offerings which will enhance, complement, replace or add to our existing products. Our competitive edge lies in our ability to develop complex high performance test measurement in a simple and fast way at competitive cost. During the year, we spent RM2.78 million for R&D expenses, which accounted for approximately 24.67% of our Group's total revenue. This represents an increase of 20.35% as compared to the R&D expenses of RM2.31 million incurred in the previous financial year.

To continue to thrive in this high technology business and ensure long-term sustainability, we will continue to focus our R&D resources on test technologies and product development where the design facilities will be enhanced and the internal capabilities will be addressed to improve the measurement capabilities and reduce costs.

Performance Outlook

WSTS forecasts the semiconductor market to grow by 4.5% to USD313.8 billion in 2011, following an estimated 32.7% increase to USD300.4 billion in 2010. In contrast to 2009, the industry is recovering with revived enterprise and consumer spending. The global economic crisis in 2009 resulted in contracting results at an -9.0% growth, totaling USD226.3 billion.

The new forecast presents a materially more optimistic estimate for the year 2010, reflecting an increase of USD9.4 billion over the WSTS Spring forecast. The industry is now expected to top USD331.5 billion in 2012, with a 3-year compound annual growth rate of 13.6% from 2009 to 2012.

Whilst there are mixed views on the state of the global economy, according to the outlook by WSTS, the semiconductor market is positioned for continued, albeit slower growth in 2011. The worldwide semiconductor revenue is forecast to total USD313.8 billion in 2011, up 4.5% from 2010's revenue.

The Board is mindful of the current challengers faced by the global economy; recovering yet not without uncertainty, and remains cautiously optimistic of the Group's performance for the financial year ahead. Our business strategies of revenue expansion will still be our main focus. This would be achieved by focusing on our R&D activities to develop new and enhanced product offerings. In addition, we would continue to improve our cost structure by way of enhancing operational efficiency, with the aim of maintaining our competitive edge as a total test systems solutions provider that offers our existing and new customers cost effective and high performance products.

Appreciation

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to our valued shareholders, customers, suppliers and business associates for their ongoing support and confidence in the Group. We look forward to your continuing partnership to propel the Group forward in the future.

Last but not least, I would like to put forward a special note of thanks and gratitude to my fellow Board members, management and staff whose commitment, diligence and integrity have raised our operational and financial performance towards a steady improvement during the financial year.

With your unwavering support and loyalty, I am confident that our Group will continue to build upon the current momentum and achieve greater heights in the year ahead.

Dato' Dr. Chong Eng Keat @ Teoh Eng Keat
Chairman, Independent Non-Executive Director

DIRECTOR'S PROFILE

DATO' DR CHONG ENG KEAT @ TEOH ENG KEAT aged 65, Malaysian, is an Independent Non-Executive Director of Elsoft. He was appointed to the Board on 3 June 2005. He is the Chairman of the remuneration committee and a member of the audit committee. He was then elected and currently serves as the Non-Executive Chairman of Elsoft.

He graduated from Universiti Sains Malaysia in 1975 with a Bachelor (Hons) Degree in Chemistry and went on an Australian National University Scholarship to do his PhD in Chemistry in 1976. After obtaining his PhD in 1979, he returned to USM as a lecturer in the School of Chemistry.

In 1980, he left USM to join Intel Technology Sdn Bhd as a Senior Process Engineer. During his 22 years in Intel, he held various general management positions in manufacturing as well as in technology development. He started up the Intel Kulim site as the pioneer Managing Director in 1995 and at the time of his retirement in 2002 was the Vice-President and General Manager of Intel's worldwide Board and Systems operations. He was the former President and Chief Executive Officer of Kolej Disted Stamford and he is currently the Executive Vice Chairman of Global Edutech Management. He is also an Independent Non-Executive Director of Globetronics Technology Bhd and MQ Technology Berhad.

He attended all five Board of Directors Meetings held in the financial year 2010. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 10 years other than traffic offences, if any.

TAN CHEIK EAIK aged 46, Malaysian, is the Executive Director and Chief Executive Officer of Elsoft. He was appointed to the Board on 4 June 2003. He graduated with a Bachelor (Hons) Degree in Electrical Engineering from University Malaya in 1990. Upon graduation, he joined Hewlett Packard (M) Sdn Bhd as a Design Engineer and was soon promoted to Senior Design Engineer.

In 1992, due to the sudden death of his brother-in-law, he left his promising career with Hewlett Packard to start his entrepreneurial career, succeeding his late brother-in-law's electrical wiring business Siang Electronics Technology, a partnership company. Subsequently, Siang Electronics Technology was converted to STSB in which he became the Managing Director. He is also a member of the remuneration committee.

As an engineer, he specialises and is experienced in the areas of test metrology and embedded application system design that contribute to the fundamentals of the Group's success. Over the years, under his leadership and business entrepreneurship, his team started to build up a strong internal R&D capability and successfully developed a series of ATE systems for semiconductor and optoelectronic applications which contributed to the Group's success today.

He attended all five Board of Directors Meetings held in the financial year 2010. He, Tan Ah Lek and Tan Ai Jiew who are the major shareholders and directors of the Company are siblings. He has no conflict of interest with the Company and had no convictions for offences within the past 10 years other than traffic offences, if any.

KOAY KIM CHIEW aged 44, Malaysian, is an Executive Director of Elsoft. He was appointed to the Board on 4 June 2003. He graduated with a Bachelor (Hons) Degree in Electrical Engineering from University Malaya in 1992.

Upon his graduation, he served Intel Technology Sdn Bhd, a leading chip manufacturing multinational company as an Automation Engineer. He left Intel in 1994 and subsequently joined Elsoft.

He is currently the Chief Technology Officer and manages the Group's technological direction. He plays a key role in the hardware and software design and development of the Group.

He attended all five Board of Directors Meetings held in the financial year 2010. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 10 years other than traffic offences, if any.

TAN AH LEK aged 55, Malaysian, is an Executive Director of Elsoft. He was appointed to the Board on 3 June 2005. He started his career as an electrical wiring technician and later started a business in electrical wiring services. He has many years of experience in electrical wiring projects.

He was one of the co-founders of STSB and has been crucial to the success of the Company since then. He is currently responsible for the daily operation management and logistics planning.

He attended all five Board of Directors Meetings held in the financial year 2010. He, Tan Cheik Eaik and Tan Ai Jiew who are the major shareholders and Directors of the Company are siblings He has no conflict of interest with the Company and had no convictions for offences within the past 10 years other than traffic offences, if any.

DIRECTOR'S PROFILE (cont'd)

TAN AI JIEW aged 61, Malaysian, is a Non-Independent Non-Executive Director of Elsoft. She was appointed to the Board on 3 June 2005. She is a member of the audit committee. Together with Tan Cheik Eaik and Tan Ah Lek, she co-founded STSB. She is the wife of the late Lau Gaik Siang (also known as "Siang") who laid out the fundamental business network for the inception of STSB and supported the initial function of administration. She has currently withdrawn from the day-to-day operations and remains as a Non-Executive Director.

She attended all five Board of Directors Meetings held in the financial year 2010. She, Tan Cheik Eaik and Tan Ah Lek who are the major shareholders and directors of the Company are siblings. She has no conflict of interest with the Company and had no convictions for offences within the past 10 years other than traffic offences, if any.

ONG ENG CHOON aged 59, Malaysian, is an Independent Non-Executive Director of Elsoft. He was appointed to the Board on 3 June 2005. He is the Chairman of the audit committee and a member of the remuneration committee. He is an Accountant by profession. He graduated from Tunku Abdul Rahman College, Kuala Lumpur with a Diploma of Business Administration and has more than 30 years of tax experience of which 3 years were spent with the Inland Revenue Board, and 10 years with one of the top four accounting firms before becoming the Managing Director of Taxnet Consultants Sdn Bhd since 1 September 1996.

He is a Chartered Accountant (Malaysia), a Fellow of the Chartered Association of Certified Accountants (FCCA), an Associate Member of the Institute of Chartered Secretaries and Administrators (ICSA) and an Associate Member of the Chartered Tax Institute of Malaysia He is also an Independent Non-Executive Director of Chin Well Holdings Berhad, Tek Seng Holdings Berhad, Public Packages Holdings Berhad, Nagamas International Berhad and Tambun Indah Land Berhad.

He attended all five Board of Directors Meetings held in the financial year 2010. He does not have any family relationship with any director and/or major shareholders of the Company. He has no conflict of interest with the Company and had no convictions for offences within the past 10 years other than traffic offences, if any.

BOARD OF DIRECTORS

Dato' Dr Chong Eng Keat @ Teoh Eng Keat
Chairman
Independent Non-Executive Director

Tan Cheik Eaik
Executive Director/Chief Executive Officer

Koay Kim Chiew
Executive Director

Tan Ah Lek
Executive Director

Tan Ai Jiew
Non-Independent Non-Executive Director

Ong Eng Choon
Independent Non-Executive Director

AUDIT COMMITTEE

Ong Eng Choon
Chairman of Audit Committee
Independent Non-Executive Director

Dato' Dr Chong Eng Keat @ Teoh Eng Keat
Member of Audit Committee
Independent Non-Executive Director

Tan Ai Jiew
Member of Audit Committee
Non-Independent Non-Executive Director

REMUNERATION COMMITTEE

Dato' Dr Chong Eng Keat @ Teoh Eng Keat
Chairman of Remuneration Committee
Independent Non-Executive Director

Ong Eng Choon
Member of Remuneration Committee
Independent Non-Executive Director

Tan Cheik Eaik
Member of Remuneration Committee
Executive Director/Chief Executive Officer

COMPANY SECRETARIES

Lee Peng Loon (MACS 01258)
Ooi Yoong Yoong (MAICSA 7020753)

REGISTERED OFFICE

51-21-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang
Tel: 04-210 8833
Fax: 04-210 8831

HEAD/MANAGEMENT OFFICE

Plot 85B, Lintang Bayan Lepas 9
Bayan Lepas Industrial Park, Phase 4
11900 Penang
Tel: 04-646 8122
Fax: 04-643 3918
E-mail: info@elsoftresearch.com
Website: http://www.elsoftresearch.com

REGISTRARS AND TRANSFER OFFICE

AGRITEUM Share Registration Services Sdn Bhd (578473-T)
2nd Floor, Wisma Penang Garden
42, Jalan Sultan Ahmad Shah
10050 Penang
Tel: 04-228 2321
Fax: 04-227 2391

AUDITORS

Gooi & Associates (AF-0567)
Chartered Accountants

PRINCIPAL BANKERS

Hong Leong Bank Berhad (97141-X)
HSBC Bank Malaysia Berhad (127776-V)

Stock Exchange Listing

ACE Market of Bursa Malaysia Securities Berhad
Stock Name: ELSOFT
Stock Code: 0090

CORPORATE GOVERNANCE STATEMENT

A) The Malaysia Code on Corporate Governance (Code)

The Board of Directors fully supports the objectives of the Code and also acknowledges its role in ensuring that shareholders' interests are properly looked after. For this reason, the Board of Directors affirms its policy of adhering to the principles setout in Part 1 of the Code and the extent of the Group's compliance in the Best Practices in the Corporate Governance set out in Part 2 of the Code.

B) Board of Directors

1. Composition

The Board meets at least 4 times in each financial year with additional meetings convened as necessary. The Board has held 5 meetings during the financial year ended 31 December 2010. It meets within 2 months from the end of every quarter of the financial period, when the Group's financial results are deliberated and considered prior to releasing them to Bursa Malaysia Securities Berhad and the Securities Commission. The composition of the Board, and the profile of each Director is provided on pages 6 and 8 of this Annual Report.

Elsoft is led and managed by an experienced Board comprising members with a range of experience in relevant fields such as accounting and engineering. Together, the Directors bring a broad range of skills, experience and knowledge to direct and supervise the Elsoft Group business activities.

The Board members have full and unrestricted access to information on the Group's business and affairs in discharging their duties. Prior to the meetings, they receive the agenda and a full set of Board papers.

All Directors also have full access to the advice and service of the Company Secretary in furtherance of their duties. Where necessary, the Directors may obtain independent professional advice at the Company's expense on specific issues to enable the Board to discharge their duties on the matters being deliberated.

The Board has 6 Directors comprising 3 Executive Directors, 2 Independent Non-Executive Directors and 1 Non-Independent Non-Executive Director. The Board operates in an open environment in which opinions and information are freely exchanged and in these circumstances any concerns need not be focused on a single Director as all members of the Board fulfill this role individually and collectively.

The Board is alert to the possibility of potential conflicts of interest involving the Directors and the Company and affirms its commitment to ensure that such situations of conflict are avoided.

2. Appointments and Re-election of Directors

In accordance with Article 107 of the Company's Articles of Association, any new Director so appointed shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election.

Pursuant to Article 100 of the Company's Articles of Association, at every Annual General Meeting of the Company, one third (1/3) of the Directors or if the number is not three (3) or a multiple of three (3), then the nearest one-third (1/3) of the Directors shall retire from office but shall be eligible for re-election. All Directors shall retire from office once at least every three (3) years.

The Company does not have a separate Nomination Committee for identifying, nominating and recommending new candidates to the Board. The Board of Directors collectively is responsible for identifying, nominating, recommending and appointing the right candidate with the necessary experience and competencies to be filled in the Board.

3. Remuneration

The Directors are satisfied with the current levels of remuneration, which are in line with the responsibilities expected by the Company. The amounts of remuneration paid to Directors are disclosed in the Notes to the Audited Financial Statements.

The Remuneration Committee was set up in 18 November 2005 to review the remuneration package of the Directors.

The composition of the Committee, its terms of reference, attendance of meetings by individual members are set out on 20.

B) Board of Directors (cont'd)

Director	Fee (RM)	EPF and Other Emoluments	Total
Executive Director	–	531,050	531,050
Non-Executive Director	112,000	–	112,000

Remuneration Band	Number of Directors	
	Executive	Non Executive
50,000 and below	–	3
50,001 - 100,000	–	–
100,001 - 150,000	1	–
150,001 - 200,000	1	–
200,001 - 250,000	1	–

4. Training

At the date of this Statement, all Directors have attended and completed the Mandatory Accreditation Programme prescribed by Bursa Malaysia Securities Berhad ("Bursa Securities").

In addition, the Directors will continue to participate in other relevant training programmes to further enhance their skills and knowledge in discharging their duties as Director in an effective manner. Throughout the year, the Directors have received updates from time to time on relevant new laws and regulations.

The training programmes and seminars attended by the Directors during the year ended 31 December 2010 include:

Name of Directors	Title of training programmes and seminars	Mode of Training	No of Days
Chong Eng Keat	Practical Application and Implementation Issue Encountered when Applying FRSs	Seminar	1
Tan Cheik Eaik	Enchancing Business Trought Understanding Consumer Behavior	Seminar	1/2
	Legal compliance RE HR Matters	Seminar	1/2
	Creativity Advertising And Promotion	Seminar	1/2
	Web Marketing	Seminar	1/2
Koay Kim Chiew	Safety Regulation and Application In Machine Industry	Seminar	1
	Futureproff Your Vision System	Seminar	1
	Embedded System	Seminar	1
Tan Ah Lek	Dealing With Deadlock Situations And boardroom Tussles	Seminar	1
Ong Eng Choon	Workshop On analysis Of Recent Tax Cases, Construing Court Decisions & Managing Tax Appeals Efficiently	Seminar	1
	Financial Reporting Standards (FRS) Workshop 2010	Seminar	2
	2011 Budget Seminar – Highlight & Implications	Seminar	1
	Making The Most Of Double Tax Agreement	Workshop	1
	Corporate Governance Guide – Towards Boardroom Excellence	Seminar	1
Tan Ai Jiew	Dealing With Deadlock Situations And boardroom Tussles	Seminar	1

C) Shareholders

The Board recognises the value of good investor relation and the importance of disseminating information in a fair and equitable manner. The participation of shareholders and investors, both individual and institutional, at general meetings is encouraged whilst requests for briefings from the press and investment analysts are usually met as a matter of course.

Notice of Annual General Meeting and the annual report are sent to shareholders at least 21 days before the date of the meeting.

In addition, the shareholders and investors may obtain the Company's latest announcements at the Company's website at www.elsoftresearch.com and also at Bursa Malaysia Securities Berhad's website at www.bursamalaysia.com.

D) Accountability and Audit

1. The Audit Committee

The Audit Committee was set up in June 2005. The composition of the Committee, its terms of reference, attendance of meetings by individual members are set out on pages 13 to 17

2. Financial Reporting

The Board has a responsibility to present a true and fair assessment of the Group's position and prospects primarily through the quarterly results to the Bursa Securities and the Annual Report to shareholders. The Audit Committee assists the Board in scrutinizing information for disclosure to ensure accuracy and adequacy.

3 Internal Control

Information pertaining to the Company's internal control is presented in the Statement on Internal Controls laid out on pages 18 and 19 of this Annual Report.

4 Relationship with the Auditors

The Board always maintains a formal and transparent arrangement with its auditors in seeking professional advice and ensuring compliance with the accounting standards in Malaysia.

E) Corporate Social Responsibility (CSR)

Our Group's commitment to CSR is demonstrated and continuously improved by emphasising the importance of values, business ethics and good working conditions for sustainable growth. We develop and operate our networks in accordance with best environmental practices. We emphasize our commitment towards CSR by respecting all legislation in the territories in which our Group operates; creating working conditions that promote a healthy work-life balance in accordance with laws and agreements on working time; upgrading employees' skill and knowledge by attending relevant training and courses; avoid usage of hazardous materials and contaminated soils; adopt whenever possible components that are 'green' compliant and environmentally friendly; encourage participation in charitable organisation activities and provide education sponsorship for students currently pursuing tertiary education.

Mr Ong Eng Choon	Chairman of Audit Committee Independent Non-Executive Director
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	Member of Audit Committee Independent Non-Executive Chairman
Madam Tan Ai Jiew	Member of Audit Committee Non-Independent Non-Executive Director

The Terms of Reference of the Audit Committee are as follows:-

1) Appointment/Composition

1.1 The members of the Committee shall be appointed by the Board.

1.2 The Audit Committee shall consist of not less than three (3) members, all of whom shall be Non-Executive Directors and financially literate. The majority of the members of the Committee shall be Independent Directors.

1.3 At least one (1) member of the Committee:

(i) must be a member of the Malaysian Institute of Accountants; or

(ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years' working experience and

- he must have passed the examinations specified in Part I of the First Schedule of the Accountants Act, 1967; or

- he must be a member of one (1) of the Associations of Accountants specified in Part II of the First Schedule of the Accountants Act, 1967; or

(iii) fulfils such other requirements as prescribed or approved by Bursa Malaysia Securities Berhad.

1.4 No Alternate Director shall be appointed as a member of the Committee.

1.5 The Chairman of the Committee shall be appointed by the members of the Committee among their number who is an Independent Director.

1.6 The Board must review the term of office and performance of the Committee and each of its members at least once every three (3) years to determine whether such Committee and members have carried out their duties in accordance with their terms of reference.

1.7 The Board shall, within three (3) months of a vacancy occurring in the Audit Committee which result in the number of members reduced to below three (3), appoint such number of new members as may be required to make up the minimum number of three (3) members.

2) Meetings

2.1 Meetings shall be held not less than four (4) times in a year. In addition, the Chairman of the Committee may call a meeting of the Committee if a request is made by any Committee members, the Company's Executive Chairman/CEO or the internal or external Auditors if they consider it necessary.

2.2 Meeting will be attended by the members of the Committee and the Company Secretary or the representative of the Secretary shall act as the secretary of the Audit Committee.

2.3 Participants may be invited from time to time to attend the meeting depending on the nature of the subject under review. These participants may include the Directors, General Managers, Division Heads, representatives from the Finance and Internal Audit Departments and external Auditors. The head of finance, the head of internal audit and a representative of the external auditors should normally attend meetings.

2.4 The quorum of the Audit Committee meeting shall be two (2) members and composed of a majority of Independent Directors.

2.5 The Chairman of the Committee should engage on a continuous basis with the senior management, such as the executive chairman, the chief executive officer, the head of finance, the head of the internal audit and the external auditors in order to be kept informed of matters affecting the Company.

2.6 The Audit Committee should meet with the external auditors without the presence of executive board members at least twice a year.

3) Authority

3.1 The Committee is authorised by the Board to carry out the duties mentioned below and the Board and Management shall give all assistance that is necessary to enable the Committee to discharge its duties.

3.2 The Committee shall, whenever necessary and reasonable for the performance of its duties and in accordance with a procedure to be determined by the Board and at the Company's cost:

(a) have authority to investigate any matter within its terms of reference;

(b) have the resources which are required to perform its duties;

(c) have full and unrestricted access to any information pertaining to the Company;

(d) have direct communication channels with the external Auditors and person(s) carrying out the internal audit function or activity (if any);

(e) be able to obtain independent professional or other advice; and

(f) be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Company, whenever deemed necessary.

(g) The head of internal audit shall reports directly to the Audit Committee.

4) Functions and Responsibilities

The functions and responsibilities of the Committee shall include the following:

4.1 Internal Audit

(a) To review the 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.

(b) To review the internal audit programme and the results of the internal audit process and when necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function.

(c) To review any appraisal or assessment of the performance of members of the internal audit function.

(d) To approve any appointment or termination of senior staff members of the internal audit function, if the internal audit function is performed in-house.

(e) To take cognizance of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit his reason for resigning, if the internal audit function is performed in-house.

4.2 External Audit

(a) To discuss and liaise with the external Auditors to ensure the smooth implementation of the audit plan, review and forward the evaluation of the system of internal controls and audit report to the Board.

(b) To review the assistance given by employees of the Group to the external Auditors.

(c) To review and report the same to the Board any letter of resignation from the external Auditors of the Company as well as whether there is any reason (supported by grounds) to believe that the Company's external Auditors are not suitable for re-appointment.

(d) To make recommendations concerning the appointment of the external Auditors and their remuneration to the Board.

4.3 Audit Reports

The reports of the Committee and the external and internal Auditors and corrective action taken shall be tabled for discussion by the Board of Directors.

4.4 Financial Reporting

To review quarterly report and annual financial statements prior to the approval of the Board, focusing particularly on:

(a) changes in or implementation of major accounting policy changes;

(b) significant and unusual events; and

(c) compliance with accounting standards and other legal requirements.

4.5 Related Party Transaction

To review any related party transactions and conflict of interest situation that may arise within the Company and the Group including any transaction, procedure or course of conduct that raises questions of management integrity

4.6 Allocation of Options

To review and verify the allocation of options to employees under Employees Share Option Scheme.

4.7 Listing Requirements

To report any breach of listing requirements, which have not been satisfactory resolved to Bursa Malaysia Securities Berhad.

4) Functions and Responsibilities (cont'd)

4.8 Major Findings

To consider the major findings of internal investigations and Management's response.

4.9 Other Matters

To consider other topics as defined by the Board.

5) Minutes

The Secretary shall maintain minutes of the proceedings of the meetings and circulate such minutes to all members of the Committee and to the Board members.

6) Audit Committee Report:

The Committee shall ensure that an audit committee report is prepared at the end of each financial year that complies with subparagraph (6.1) and (6.2) below:

6.1 The audit committee report shall be clearly set out in the Annual Report of the Company;

6.2 The audit committee report shall include the following:

(a) the composition of the Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the Directors are independent or otherwise);

(b) the terms of reference of the Committee;

(c) the number of Committee meetings held during the financial year end and details of attendance of each member;

(d) a summary of activities of the Committee in the discharge of its functions and duties for that financial year of the Company;

(e) a statement in relation to the allocation of options pursuant to share scheme for employees as required under rule 8.19;

(f) a breakdown of the options offered to and exercised (if any) by Non-Executive Directors pursuant to a share scheme for employees in respect of the financial year in tabular form; and

(g) a summary of the activities of the internal audit function or activity

7) Attendance at Meetings

There were 5 meetings held for the financial year ended 31 December 2010 with 100% attendance.

8) Summary of Activities

The Committee had carried out the following activities during the five (5) meetings during the financial year ended 31 December 2010 in discharging their duties and responsibilities:

- Reviewed the quarterly reports and audited financial statements of the Group and the recommendation of the same to the Board for approval and release to Bursa Malaysia Securities Berhad and Securities Commission.
- Reviewed the state of internal control with the internal auditors on findings and recommendation.
- Reviewed with the internal auditors their internal audit plan for the financial year 2010.
- Reviewed with the internal auditors the adequacy of the Group's risk assessment and management framework in identifying and considering significant financial and business risk and recommended to the Board of Directors the implementation of appropriate systems to manage these risks.
- Appraised and evaluated the performance of the external auditors and recommended the re-appointment of the external auditors to the Board of Directors of the Company.
- Reviewed the appraisal of the performance of members of internal audit function.
- Reviewed corporate governance statement, statement about the state of Internal control and audit committee report and recommended the same to the Board for inclusion in the Annual Report.
- Reviewed the 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
- The Committee met with the external auditors twice during the year without the presence of the management.

9) Internal Audit

At present, the Group does not have an in-house internal audit department. Nevertheless, the Board strongly recognizes the importance of a structured risk management and a risk-based internal audit to establish and maintain a sound system of internal control. As such, the Board has appointed UHY Diong as the internal auditor.

During the financial year under review, the outsourced internal audit function conducted reviews based on an approved internal audit plan and the results of these reviews were tabled at the Audit Committee's meetings.

The internal auditors have also carried out follow-up reviews to ensure that recommendations for improving the internal control systems were being implemented satisfactorily.

During the course of internal audits, the internal auditors have identified areas that required improvement. These areas were duly highlighted in the internal audit reports along with internal audit recommendations.

In addition, the Audit Committee and the Senior Management work closely with the external auditors to review accounting and control issues to ensure significant issues are brought to the attention of the Board.

The Board of Directors and the Audit Committee relied on discussions with the management and Executive Directors, review of quarterly financial statements and input from the external and internal auditors to discharge its duties. The state of internal control is detailed in the statement of internal control on pages 18 and 19.

10) Statement of ESOS

The committee confirmed that there was no allocation of ESOS under the Financial Year 2010.

STATEMENT ABOUT THE STATE OF INTERNAL CONTROL

The Malaysian Code on Corporate Governance stipulates that the board of directors of listed companies should maintain a sound system of internal control to safeguard shareholders' investment and the Group's assets. The Board of Directors of Elsoft Research Berhad is pleased to provide the following statement on the state of internal control of the Group, which has been prepared in accordance with the Statement on Internal Control: Guidance for Directors of Public Listed Companies ("Internal Control Guidance") issued by the Task Force on Internal Control and adopted by Bursa Securities.

RESPONSIBILITY FOR RISK AND INTERNAL CONTROL

The Board recognises the importance of a structured risk management and a risk-based internal audit to establish and maintain a sound system of internal control. The Board affirms its overall responsibility for the Group's systems of internal control and for reviewing the adequacy and integrity of those systems. Because of the limitations that are inherent in any systems of internal control, those systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced, or potentially exposed to, by the Group and this process includes updating the system of internal controls when there are changes to business environment and regulatory guidelines. This process has been in place throughout the financial year and up to the date of approval of the annual report. The adequacy and effectiveness of this process have been continually reviewed by the Board and are in accordance with the Internal Control Guidance.

RISK MANAGEMENT

The Board and management practice proactive significant risks identification on a quarterly basis or earlier as appropriate, particularly any major proposed transactions, changes in nature of activities and/or operating environment, or venturing into new operating environment which may entail different risks, and put in place the appropriate risk response strategies and controls until those risks are managed to, and maintained at, a level acceptable to the Board.

INTERNAL AUDIT

The Board acknowledges the importance of the internal audit function and has engaged the services of an independent professional accounting and consulting firm, Messrs UHY to provide much of the assurance it requires regarding the effectiveness as well as the adequacy and integrity of the Group's systems of internal control.

The internal audit adopts a risk-based approach in developing its audit plan which addresses all the core auditable areas of the Group based on their risk profile. Scheduled internal audits are carried out by the internal auditors based on the audit plan presented to and approved by the Audit Committee. The audit focuses on areas with high risk and inadequate controls to ensure that an adequate action plan is in place to improve the controls. For those areas with high risk and adequate controls, the audit ascertains that the risks are effectively mitigated by the controls. On a half yearly basis or earlier as appropriate, the internal auditors report to the Audit Committee on areas for improvement, highlight significant findings in respect of any non-compliance and will subsequently follow up to determine the extent of their recommendations that have been implemented.

STATEMENT ABOUT THE STATE OF INTERNAL CONTROL (cont'd)

INTERNAL CONTROL

Apart from risk management and internal audit, the Group has put in place the following key elements of internal control:

- An organization structure with well-defined scopes of responsibility, clear lines of accountability, and appropriate levels of delegated authority;
- A process of hierarchical reporting which provides for a documented and auditable trail of accountability;
- A set of documented internal policies and procedures for operational, financial and human resource management, which is subject to regular review and improvement;
- Regular and comprehensive information provided to management, covering financial and operational performance and key business indicators, for effective monitoring and decision making;
- The Audit Committee reviews internal control issues identified by the internal auditors, the external auditors, and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems; and
- Regular visits to operating units by members of the Board and senior management.

Based on the internal auditors' report for the financial year ended 31 December 2010, there is a reasonable assurance that the Group's systems of internal control are generally adequate and appear to be working satisfactorily. A number of minor internal control weaknesses were identified during the financial period, all of which have been, or are being, addressed. None of the weaknesses have resulted in any material losses, contingencies or uncertainties that would require disclosure in the Group's annual report.

The Board continues to review and implement measures to strengthen the internal control environment of the Group.

This statement is issued in accordance with a resolution of the Directors dated 28 April 2011.

REMUNERATION COMMITTEE REPORT

Dato' Dr Chong Eng Keat @ Teoh Eng Keat	Chairman of Remuneration Committee Independent Non-Executive Director
Mr Ong Eng Choon	Member of Remuneration Committee Independent Non-Executive Director
Mr Tan Cheik Eaik	Member of Remuneration Committee Executive Director/Chief Executive Officer

The Terms of Reference of the Committee are as follows:

1. Appointment/Composition

1.1 The members of the Committee shall be appointed by the Board.

1.2 The Remuneration Committee shall consist of not less than three (3) members composed wholly or mainly of Non-Executive Directors.

1.3 The Chairman of the Committee shall be appointed by the members of the Committee among their number.

2. Meetings

2.1 The Remuneration Committee shall meet at least once a year.

2.2 The Remuneration Committee shall meet to carry out the duties and responsibilities in item (4) as stated below. The quorum for a meeting shall be two members both of whom shall be Non-Executive Directors.

2.3 Meeting will be attended by the members of the Committee and the Company Secretary who shall act as the Secretary, or any representative of the Secretary.

3. Authority

3.1 The Committee is authorised by the Board to investigate any activity within its Terms of Reference. It shall be provided with the resources to perform its duties and full and unrestricted access to information pertaining to the Company and the Group.

3.2 The Committee shall also have the right to consult independent experts where they consider it necessary to carry out their duties.

4. Functions and Responsibilities

The functions and responsibilities of the Committee shall include the following:

(a) to recommend to the Board the remuneration package of executive directors in all its form, drawing from outside advice, if necessary.

(b) to recommend to the Board the remuneration of Non-Executive Directors which shall be a decision of the Board as a whole, save and except where the remuneration is in respect of any member or members of this Committee.

Executive Directors should play no part in decisions on their own remuneration. The determination of remuneration packages of Non-Executive Directors, including Non-Executive Chairman should be a matter for the Board as a whole.

5. Minutes

The Secretary shall maintain minutes of the proceedings of the meetings.

6. Attendance at Meetings

The Remuneration Committee was formed on 18 November 2005 and to meet at least once in a financial year.

7. Summary of Activities

Two Remuneration Committee meetings were held during the financial year ended 31 December 2010 in discharging their duties and responsibilities:

- Reviewed and recommended to the Board the remuneration package of Executive Directors for financial year 2010.

STATEMENT OF PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY

1. INTRODUCTION

Elsoft had announced on 28 April 2011 that it will be seeking shareholders' approval at the forthcoming 8th Annual General Meeting (AGM) for the proposed renewal of authority for the purchase by the Company of its own shares of up to ten percent (10%) of the issued and paid-up share capital of the Company (Proposed Share Buy-Back).

The purpose of this Statement is to provide you with the details of the Proposed Share Buy-Back, to set out the recommendation of the Board of Directors of the Company (Board) and to seek your approval for the ordinary resolution pertaining to the Proposed Share Buy-Back to be tabled at the 8th AGM of the Company.

The Notice of the 8th AGM and the Proxy Form are set out in page 72 and 76 respectively.

SHAREHOLDERS OF THE COMPANY ARE ADVISED TO READ THE CONTENTS OF THIS STATEMENT CAREFULLY BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED SHARE BUY-BACK AT THE 8TH AGM.

2. DETAILS OF THE PROPOSED SHARE BUY-BACK

At the 7th AGM of Elsoft held on 21 June 2010, shareholders had approved the authority for the purchase by the Company of its own shares of up to ten percent (10%) of the issued and paid up share capital of the Company. The said approval will expire at the conclusion of the Company's 8th AGM to be held on 22 June 2011 unless renewed by an ordinary resolution passed by the shareholders.

The maximum number of shares that may be bought-back of up to ten percent (10%) of the issued and paid-up share capital of the Company will include all shares which have been previously bought-back and retained as treasury shares.

Your approval for the Proposed Share Buy-Back will be effective immediately after the passing of the ordinary resolution to be tabled at the 8th AGM of the Company relating to the Proposed Share Buy-Back and will continue to be in force until:

(a) The conclusion of the next annual general meeting of the Company at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or

(b) The expiration of the period within which the next annual general meeting of the Company is required by law to be held; or

(c) The authority is revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever occurs first.

STATEMENT OF PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

2. DETAILS OF THE PROPOSED SHARE BUY-BACK (cont'd)

The maximum amount of funds to be allocated for the Proposed Share Buy-Back shall not exceed the aggregate of retained profits and/or share premium account of the Company. The retained profits and the share premium account of our Company are as follows:

	Retained Profits (RM'000)	Share Premium (RM'000)
As at 31 December 2010 as per audited accounts	7,880,711	15,165,965
As at 31 March 2011 as per management accounts	8,101,639	15,165,965

The Proposed Share Buy-Back is subject to compliance with Section 67A of the Companies Act, 1965 and any prevailing laws, rules and regulations, orders, guidelines and requirements issued by the relevant authorities ("Prevailing Law") at the time of the purchase. The Proposed Share Buy-Back will be in accordance with the Prevailing Law at the time of the purchase including compliance with the twenty-five percent (25%) public shareholding spread as required by the Listing Requirements of Bursa Malaysia Securities Berhad for the ACE Market (ACE LR). The public shareholding spread of our Company as at 29 April 2011 is approximately 28.03%. If the Proposed Share Buy-Back is approved for implementation, the Company will ensure that the minimum public shareholding spread of twenty-five percent (25%) is complied with.

The Proposed Share Buy-Back will be funded from internally generated funds and/or external borrowings. In the event that the Proposed Share Buy-Back is to be partly financed by external borrowings, our Board of Directors shall ensure that the Company will be capable of repaying such borrowings and that such funding is not expected to have any material effect on the cash flow of the Company.

Pursuant to Rule 12.17 of the ACE LR, the Company shall purchase its own Shares on Bursa Securities at a price which is not more that fifteen percent (15%) above the weighted average market price of the Company's Shares for the five (5) market days immediately before to the date of the purchase(s).

Pursuant to the provisions of Rule 12.18 of the ACE LR, the Company may only resell the Elsoft Shares purchased pursuant to the Proposed Share Buy-Back (Purchased Elsoft Shares) held as treasury shares on Bursa Securities at:

(a) a price which is not less than the weighted average market price for the shares for the five (5) market days immediately before the resale; or

(b) a discounted price of not more than five percent (5%) to the weighted average market price for the share for the five (5) market days immediately before the resale provided that:

  (i) the resale takes place not earlier than thirty (30) days from the date of purchase; and

  (ii) the resale price is not less than the cost of purchase of the shares being resold.

3. RATIONALE FOR THE PROPOSED SHARE BUY-BACK

The implementation of the Proposed Share Buy-Back is envisaged to benefit the Company and its shareholders as follows:

(i) the Company is able to utilize its surplus financial resources more efficiently. If implemented, this may help to stabilize the supply and demand of the Elsoft Shares traded on Bursa Securities and thereby support its fundamental value.

(ii) the Earnings per share (EPS) of Elsoft Shares and the return on equity of the Company is expected to improve as a result of a reduced share capital base.

(iii) the Purchased Elsoft Shares retained as treasury shares provide the Board of Directors of the Company with an option to resell the treasury shares at a higher price and generate capital gains for the Company.

(iv) the Purchased Elsoft Shares retained as treasury shares can be distributed as share dividends to our shareholders as a reward.

4. POTENTIAL ADVANTAGES AND DISADVANTAGES OF THE PROPOSED SHARE BUY-BACK

4.1 Potential Advantages

The potential advantages of the Proposed Share Buy-Back are as follows:

(a) The Proposed Share Buy-Back would enable the Company to utilize its financial resources more efficiently especially where there is no immediate use and it may strengthen the consolidated EPS of the Group.

(b) The Proposed Share Buy-Back will also provide the Company with opportunities to increase its financial resources if the Purchased Elsoft Shares which are retained as treasury shares are resold at prices higher than their cost of purchase.

(c) In any event, the treasury shares may also be distributed as share dividends to the shareholders as a reward.

(d) The Proposed Share Buy-Back may also stabilize the supply and demand of Elsoft Shares traded on Bursa Securities and reduce the volatility of the share prices. The stability of Elsoft Shares price is important to maintain investors' confidence and may also assist in facilitating future fund raising via the equity market.

4.2 Potential Disadvantages

The potential disadvantages of the Proposed Share Buy-Back are as follows:

(a) The Proposed Share Buy-Back if implemented is expected to temporarily reduce the immediate financial resources of Elsoft and its subsidiaries (Elsoft Group).

(b) The Proposed Share Buy-Back may also result in the Group foregoing better investment opportunities which may emerge in the future and/or any income that may be derived from other alternative uses of such funds such as deposit in interest bearing instruments.

(c) The Proposed Share Buy-Back may also reduce the amount of resources available for distribution to the shareholders of the Company in the form of dividends as funds are utilized to purchase its own Shares.

Nevertheless, the Proposed Share Buy-Back is not expected to have any potential material disadvantages to the Company and our shareholders, as it will be implemented only after careful consideration of the financial resources of the Group and its resultant impact. The Board of Directors of the Company is mindful of the interest of the Company and our shareholders and will be prudent with respect to the above exercise.

5. EFFECTS OF THE PROPOSED SHARE BUY-BACK

The effects of the Proposed Share Buy-Back on share capital, net assets, working capital, earnings and shareholdings of Directors and Substantial Shareholders of the Company are set out below:

5.1 Share Capital

The effect of the Proposed Share Buy-Back on the issued and paid-up share capital of the Company will depend on whether the Purchased Elsoft Shares are cancelled or retained as treasury shares. The Proposed Share Buy-Back will result in a reduction of the issued and paid-up share capital of the Company if the Purchased Elsoft Shares are cancelled.

STATEMENT OF PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

5. EFFECTS OF THE PROPOSED SHARE BUY-BACK

5.1 Share Capital

Based on the Company's issued and paid-up share capital as at 29 April 2011, the effect of the Proposed Share Buy-Back, assuming that all the Purchased Elsoft Shares will be cancelled, are as follows:

	No. of Shares	RM
Issued and paid-up share capital as at 29 April 2011	181,132,000	18,113,200
Less:- Shares purchased amounting to ten percent (10%) of the Company's issued and paid-up capital pursuant to the Proposed Share Buy-Back (assuming the Purchased Elsoft Shares are fully cancelled)	18,113,200	1,811,320
After the Proposed Share Buy-Back	**163,018,800**	**16,301,880**

However, the Proposed Share Buy-Back will have no effect on the issued and paid-up share capital of the Company if all the Purchased Elsoft Shares are to be retained as treasury shares, resold or distributed to the shareholders.

5.2 Net Assets

When the Company purchases its own shares, regardless of whether they are retained as treasury shares or subsequently cancelled, the net assets per Share of Elsoft Group will decrease if the cost per Share purchased exceeds the net assets per Share of Elsoft Group at the relevant point in time. However, if the cost per Share purchased is below the net assets per Share of Elsoft Group at the relevant point in time, the net assets per Share of Elsoft Group will increase.

In the case where the Purchased Elsoft Shares are treated as treasury shares and subsequently resold on Bursa Securities, the net assets per Share of Elsoft Group upon the resale will increase if the Company resell the treasury shares at higher price than the cost of purchase and vice-versa. If the treasury shares are distributed as share dividends, the net assets of Elsoft Group will decrease by the cost of the treasury shares at the point of purchase.

5.3 Working Capital

The Proposed Share Buy-Back, as and when implemented, will reduce the working capital and cash flow of Elsoft Group, the quantum of which depends on, amongst others, the number of Shares purchased and the purchase price(s) of the Shares.

For Shares so purchased which are kept as treasury shares, upon their resale, the working capital and the cash flow of the Group will increase upon the receipt of the proceeds of the resale. The quantum of the increase in the working capital and cash flow will depend on the actual selling price(s) of the treasury shares and the number of treasury shares resold.

5.4 Earnings

The effects of the Proposed Share Buy-Back on the earnings of Elsoft Group are dependent on the number Elsoft Shares purchased, the effective funding cost to finance such purchases and/or loss in interest income to Elsoft Group if internally generated funds are utilized. Further, the purchase of the Elsoft Shares will result in a lower number of shares being taken into account for purposes of EPS computation.

5.5 Dividends

Assuming the Proposed Share Buy-Back is implemented in full and the dividend quantum is maintained at historical levels, the Proposed Share Buy-Back will have an effect of increasing the dividend rate of the Company as a result of the reduction in the issued and paid-up share capital of the Company as described under Clause 5.1 above if Elsoft Shares purchased are cancelled. Similarly, if Elsoft Shares so purchased are retained as treasury shares, assuming the Company's dividend quantum is maintained at historical levels, the Proposed Share Buy-Back will have the effect of increasing the dividend rate of the Company as a result of the suspension of the rights attaching to the treasury shares as to dividend entitlement.

5.6 Directors' And Substantial Shareholders' Shareholdings

	As at 29 April 2011				After Proposed Share Buy-Back			
	Direct (Shares)	%	Indirect (Shares)	%	Direct (Shares)	%	Indirect (Shares)	%
Directors and Substantial Shareholders								
Tan Cheik Eaik	48,110,000	26.56	-	-	48,110,000	29.51	-	-
Koay Kim Chiew	22,597,500	12.48	-	-	22,597,500	13.86	-	-
Tan Ah Lek	18,861,250	10.41	-	-	18,861,250	11.57	-	-
Tan Ai Jiew	26,785,000	14.79	135,000(1)	0.07	26,785,000	16.43	135,000(1)	0.08
Director								
Dato Dr Chong Eng Keat @ Teoh Eng Keat	100,000	0.06	-	-	100,000	0.06	-	-
Ong Eng Choon	100,000	0.06	-	-	100,000	0.06	-	-
Substantial Shareholder								
Tan Cheik Kooi	13,544,500	7.48	-	-	13,544,500	8.31	-	

(1) Deemed interested through the shareholdings of her children pursuant to Section 134(12) of the Companies Act, 1965

THE REST OF THIS PAGE IS INTENTIONALLY LEFT BLANK

STATEMENT OF PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY (CONT'D)

6. IMPLICATIONS OF THE PROPOSED SHARE BUY-BACK IN RELATION TO THE MALAYSIAN CODE ON TAKEOVERS AND MERGERS, 1998 (CODE)

There is no implication relating to the Code by the Company if the Proposed Share Buy-Back of up to ten percent (10%) of the issued and paid-up capital of the Company is carried out in full.

7. APPROVAL REQUIRED

The Proposed Share Buy-Back is conditional upon your approval at the forthcoming 8th AGM.

8. PURCHASE, RESALE AND CANCELLATION OF ELSOFT SHARES

As at 29 April 2011, the Company had purchased 25,000 Elsoft Shares and all the Elsoft Shares bought back were retained as treasury shares. There has been no resale or cancellation of the treasury shares by the Company since the first shares buy-back.

Details of Elsoft Shares bought back by the Company during the financial year ended 31 December 2010 are set out in page 28 under the heading of Share Buy-back.

9. DIRECTORS' AND/OR SUBSTANTIAL SHAREHOLDERS' INTEREST

Save for the proportionate increase in percentage of shareholdings and/or voting rights of shareholders of our Company as a result of the Proposed Share Buy-Back, none of the Directors and substantial shareholders of Elsoft and/or persons connected with them have any interest, direct or indirect, in the proposed purchase of shares or resale of treasury shares, if any in the future.

10. DIRECTORS' RECOMMENDATION

The Board of Directors of the Company, after having considered all aspects of the Proposed Share Buy-Back, is of the opinion that the Proposed Share Buy-Back is fair, reasonable and in the best interest of the Company and accordingly recommend that you vote in favour of the ordinary resolution for the Proposed Share Buy-Back to be tabled at the forthcoming 8th AGM.

11. BURSA SECURITIES

Bursa Securities takes no responsibility for the contents of this Statement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Statement.

Wong Hoo Chong
28C-23-2 Jalan Pantai Miami
11100 Batu Feringghi
Penang

Date : 1 April 2011

The Board of Directors
ELSOFT RESEARCH BERHAD
51-21-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang

Dear Sirs,

ELSOFT RESEARCH BERHAD ("THE COMPANY")
NOTICE OF NOMINATION OF MESSRS. BDO AS AUDITORS

I, being a shareholder of the Company, hereby give notice pursuant to Section 172(11) of the Companies Act, 1965 of my nomination of Messrs. BDO as Auditors of the Company in place of the retiring Auditors, Messrs. Gooi & Associates and my intention to propose the following ordinary resolution at the forthcoming Annual General Meeting of the Company:-

"That Messrs. BDO be and are hereby appointed as Auditors of the Company in place of the retiring Auditors, Messrs. Gooi & Associates, to hold office until the conclusion of the next annual general meeting at a remuneration to be determined by the Directors."

Yours faithfully,

Wong Hoo Chong

ADDITIONAL COMPLIANCE INFORMATION

1. Share Buy-back

During the financial year, the Company bought back 10,000 shares from the open market as follows:

Month 2010	No. Of Shares	Consideration * (RM)	Highest Price (RM)	Lowest Price (RM)	Weighted Average Price (RM)
May	10,000	5,530.75	0.55	0.55	0.55

All the shares purchased by the Company were retained as treasury shares. There were no treasury shares resold or cancelled during the financial year. As at 31 December 2010, a total of 20,000 shares were held as treasury shares.

*including transaction cost

2. Options, Warrants or Convertible Securities

The Company's ESOS expired on August 1, 2010 and no options were exercised during the financial year ended 31 December 2010.

There were no warrants or convertible securities issued by the Company during the financial year.

3. Depository Receipt ("DR") Programme

The Company did not sponsor any DR Programme during the financial year.

4. Sanctions and Penalties

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

5. Non-Audit Fees

There were no Non-Audit Fees paid to the external auditors or corporation affiliated to the auditors' firm by the Group for the financial year ended 31 December 2010.

6. Variation in Results

The Company did not issue any profit estimates, forecast or projection for the financial year. There was no significant variance between the audited results for the financial year ended 31 December 2010 and the unaudited results released for the quarter ended 31 December 2010.

7. Profit Guarantee

There were no profit guarantee received by the Company for the financial year ended 31 December 2010.

8. Material Contracts Involving Directors and Major Shareholders

There were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests either still subsisting as at 31 December 2010 or entered into since the end of the previous financial year.

9. Recurrent Related Party Transactions of a Revenue or Trading Nature

The Company does not have any recurrent related party transaction of a revenue or trading nature during the financial year.

10. Revaluation Policy

The Group does not adopt a policy on regular revaluation of its landed properties.

CONTENTS

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 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Company are research, design and development of test, burn-in and application specific embedded system. The principal activities of the subsidiaries are described in Note 8 to the financial statements.

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

FINANCIAL RESULTS

	Group RM	Company RM
Total comprehensive income for the year	**3,926,618**	**3,320,438**
Profit attributable to:		
Owners of the parent	**3,926,618**	**3,320,438**

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

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

The amount of dividend paid by the Company since 31 December 2009 was as follow:

	RM
In respect of the financial year ended 31 December 2010:	
First interim tax exempt dividend of 1 sen per share, declared on 9 September 2010 and paid on 22 September 2010	1,811,120

No other interim dividend has been recommended for the current financial year.

DIRECTORS

The directors who held office during the year since the date of the last report are:

Dato' Dr Chong Eng Keat @ Teoh Eng Keat
Tan Cheik Eaik
Koay Kim Chiew
Tan Ai Jiew
Tan Ah Lek
Ong Eng Choon

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company or its subsidiaries is a party, with the object or objects of enabling the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate apart from the Company's Employees' Share Option Scheme ("ESOS") below.

DIRECTORS BENEFITS (cont'd)

No director has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements or the fixed salary of a full time employee of the Company) by reason of a contract made by the Company or a related corporation with the 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 for any benefits which may be deemed to have arisen by virtue of the transactions mentioned in Note 26 to the financial statements.

DIRECTORS' INTERESTS

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in the ordinary shares of the Company was as follows:

	← Number of ordinary shares of RM0.10 each →			
Direct Interest	**Balance at 01.01.2010**	**Bought**	**(Sold)**	**Balance at 31.12.2010**
Dato' Dr Chong Eng Keat @ Teoh Eng Keat	100,000	–	–	100,000
Tan Cheik Eaik	48,110,000	–	–	48,110,000
Koay Kim Chiew	22,597,500	–	–	22,597,500
Tan Ai Jiew	26,785,000	–	–	26,785,000
Tan Ah Lek	18,861,250	–	–	18,861,250
Ong Eng Choon	100,000	–	–	100,000
Deemed Interest				
Tan Ai Jiew*	135,000	–	–	135,000

* Deemed interest by virtue of the shareholdings held by her children pursuant to Section 134(12) (C) of the Companies (Amendment) Act, 2007.

By virtue of their interest in the shares of the Company, all the directors are also deemed to have interest in the shares of all its subsidiaries to the extent the Company has an interest.

In addition, Dato' Dr Chong Eng Keat @ Teoh Eng Keat and Ong Eng Choon were each granted a five year option to acquire 100,000 Elsoft Research Berhad ordinary shares of RM 0.10 each at RM 0.60 per share. This option lapsed on 1 August 2010.

EMPLOYEES' SHARE OPTION SCHEME

The Company's Employees' Share Option Scheme ("ESOS") is governed by the bye-laws approved by the shareholders at an Extraordinary General Meeting held on 3 June 2005. The ESOS became effective on 1 August 2005 and shall be in force for a period of five (5) years from the effective period ("Option Period").

EMPLOYEES' SHARE OPTION SCHEME (cont'd)

The salient features of the ESOS are as follows:

(i) The ESOS Committee appointed by the Board of Directors to administer the ESOS, may from time to time grant options to eligible employees of the Group to subscribe for new ordinary shares of RM 0.10 each in the Company.

(ii) Subject to the discretion of the ESOS Committee, any employee whose employment has been confirmed and any directors whose specific allocation of ESOS share is approved by the Company in general meeting, shall be eligible to participate in the ESOS.

(iii) The total number of shares to be issued under the ESOS shall not exceed 15% of the issued share capital of the Company at any point of time during the tenure of the ESOS and out of which not more than 50% of the shares shall be allocated, in aggregate, to directors and senior management. In addition, not more than 10% of the shares available under the ESOS shall be allocated to any individual person who either singly or collectively through persons connected with the individual holds twenty per centum (20%) or more in the issued and paid-up share capital of the Company.

(iv) The option price shall be a price to be determined by the Board upon the recommendation of the ESOS Committee which is at a discount of not more than ten percent (10%) from the weighted average market price of the shares as shown in the daily official list issued by the Bursa Securities for the five (5) market days immediately preceding the date of offer.

(v) The new shares to be allotted upon any exercise of the opinion will upon allotment and issue rank pari passu in all respect with the then existing issued shares of the Company except that the new shares so issued shall not be entitled for any dividend, rights, allotment and / or other distribution declared, made or paid to shareholders unless the new shares so allotted have been credited into the relevant securities accounts of the shareholders maintained by Bursa Malaysia Depository Sdn Bhd before the entitlement date and will be subjected to all provisions of the Articles of Association of the Company relating to transfer, transmission and otherwise.

Options granted to eligible employees and Independent Directors for which the number granted, exercised and outstanding at year end are as disclosed in Note 28 to the financial statements.

(vi) The options granted may be exercised at any time within the Option Period from the date of the offer of the option subject to the following limits:

Year 1	20%
Year 2	20%
Year 3	20%
Year 4	20%
Year 5	20%

The ESOS lapsed on 1 August 2010.

TREASURY SHARES

During the financial year, the Company repurchased 10,000 of its issued ordinary shares from the open market at an average price of RM0.55 per share. The total consideration paid for the repurchase was RM5,530. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

As at 31 December 2010, the Company held as treasury shares a total of 20,000 of its 181,132,000 issued ordinary shares. Such treasury shares are held at a carrying amount of RM10,176 and further relevant details are disclosed in Note 15 to the financial statements.

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 allowance for doubtful debts and satisfied themselves that no known bad debts had been written off and that no allowance had been made for doubtful debts; and

(ii) to ensure that any current assets which were unlikely to realise their value 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 not otherwise dealt with in this report or financial statements of the Group and of the Company which would render:

(i) an amount to be written off as bad debts or an amount to be provided for doubtful debts in the financial statements of the Group and of the Company; and

(ii) the values attributed to the 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 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 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.

AUDITORS

The auditors, Gooi & Associates have indicated that they will not be seeking re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Signed on behalf of the Board in accordance with a resolution of the directors.

TAN CHEIK EAIK **KOAY KIM CHIEW**

Penang

Dated: 28 April 2011

STATEMENT BY DIRECTORS

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

We, **TAN CHEIK EAIK** and **KOAY KIM CHIEW**, being two of the directors of ELSOFT RESEARCH BERHAD, do hereby state on behalf of the directors that in our opinion, the financial statements as set out on pages 37 to 67 are drawn up in accordance with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2010 and of the financial performance and cash flows of the Group and of the Company for the year ended on that date.

Signed on behalf of the Board in accordance with a resolution of the directors.

TAN CHEIK EAIK **KOAY KIM CHIEW**

Penang
Dated: 28 April 2011

STATUTORY DECLARATION

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

I, **TAN CHEIK EAIK**, being the director primarily responsible for the accounting records and financial management of ELSOFT RESEARCH BERHAD, do solemnly and sincerely declare that the financial statements as set out on pages 37 to 67 are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the
abovenamed TAN CHEIK EAIK at
Georgetown in the state of Penang on
28 April 2011

TAN CHEIK EAIK

Before me,

CHEAH BENG SUN
DJN, AMN, PKT, PJK, PJM, PK
P. 103
Commissioner for Oaths

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ELSOFT RESEARCH BERHAD (Incorporated in Malaysia)

Report on the Financial Statements

We have audited the financial statements of Elsoft Research Berhad, which comprise the statements of financial position as at 31 December 2010 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 37 to 67.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, 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 Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on Other Legal and Regulatory Requirements

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

(a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries 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 Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.

(c) Our audit reports on the accounts of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

Other Matters

The supplementary information set out in Note 31 on page 42 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

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

GOOI & ASSOCIATES
Firm Number : AF 0567
Chartered Accountants

GOOI LEE HUAT
Approval Number : 1199/10/12(J)
Partner

Penang,

Dated: 28 April 2011

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Note	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
ASSETS					
Non current assets					
Property, plant and equipment	5	**6,964,187**	7,086,171	**6,926,456**	7,029,060
Prepaid lease payments	6	**3,216,006**	3,277,806	**3,216,006**	3,277,806
Investment properties	7	**3,470,097**	3,553,437	**–**	–
Investment in subsidiaries	8	**–**	–	**9,464,845**	9,464,845
Investment in associate	9	**3,635,505**	3,601,840	**2,970,000**	2,970,000
		17,285,795	17,519,254	**22,577,307**	22,741,711
Current assets					
Prepaid lease payments	6	**61,800**	61,800	**61,800**	61,800
Inventories	10	**1,677,733**	1,683,542	**1,260,831**	1,486,375
Trade receivables	11	**3,466,987**	1,411,984	**3,389,837**	1,318,966
Other receivables	12	**200,970**	226,041	**119,045**	73,147
Other investments	13	**21,848,507**	13,635,482	**12,304,840**	8,228,439
Tax recoverable		**45,501**	113,669	**12,521**	8,806
Cash and cash equivalents	14	**4,536,818**	11,496,713	**2,630,021**	6,712,876
		31,838,316	28,629,231	**19,778,895**	17,890,409
TOTAL ASSETS		**49,124,111**	46,148,485	**42,356,202**	40,632,120
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	15	**18,113,200**	18,113,200	**18,113,200**	18,113,200
Treasury shares	15	**(10,176)**	(4,646)	**(10,176)**	(4,646)
Reserves	16	**29,326,856**	27,071,456	**23,046,676**	21,459,929
Total equity		**47,429,880**	45,180,010	**41,149,700**	39,568,483
Non current liability					
Deferred taxation	17	**72,850**	75,500	**–**	–
Current liabilities					
Trade payables	18	**276,837**	143,733	**135,135**	128,830
Other payables	19	**1,344,544**	749,242	**1,071,367**	934,807
		1,621,381	892,975	**1,206,502**	1,063,637
Total liabilities		**1,694,231**	968,475	**1,206,502**	1,063,637
TOTAL EQUITY AND LIABILITIES		**49,124,111**	46,148,485	**42,356,202**	40,632,120

The accompanying notes form an integral part of these financial statements

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

		Group		Company	
		2010	2009	2010	2009
	Note	RM	RM	RM	RM
Revenue	**20**	**11,269,185**	5,879,748	**10,714,455**	5,616,740
Cost of sales		**(6,669,273)**	(4,416,783)	**(6,340,743)**	(3,893,675)
Gross profit		**4,599,912**	1,462,965	**4,373,712**	1,723,065
Other income		**1,745,820**	1,997,892	**1,162,724**	1,987,693
Administrative expenses		**(2,671,348)**	(2,022,273)	**(2,199,598)**	(1,638,425)
Share of profit in associate		**330,665**	235,134	**–**	–
Profit before taxation	**21**	**4,005,049**	1,673,718	**3,336,838**	2,072,333
Income tax expense	**23**	**(78,431)**	(91,725)	**(16,400)**	(15,206)
Total comprehensive income for the year		**3,926,618**	1,581,993	**3,320,438**	2,057,127
Profit attributable to :					
Owners of the parent		**3,926,618**	1,581,993	**3,320,438**	2,057,127
Earnings per share attributable to owners of the parent (sen per share)					
- basic	**24**	**2.17**	0.87	**–**	–
- diluted	**24**	**2.17**	0.87	**–**	–

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Non-distributable				Distributable	
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
	RM	RM		RM	RM	RM
Group						
At 1 January 2009	18,113,200	15,165,965	–	249,100	11,862,944	45,391,209
Total comprehensive income for the year	–	–	–	–	1,581,993	1,581,993
Purchase of treasury shares	–	–	(4,646)	–	–	(4,646)
Employees' share options scheme - options granted	–	–	–	22,774	–	22,774
Interim tax-exempt dividend for financial year ended - 31 December 2009	–	–	–	–	(1,811,320)	(1,811,320)
At 31 December 2009	18,113,200	15,165,965	(4,646)	271,874	11,633,617	45,180,010

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY (cont'd)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Non-distributable				Distributable	
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
	RM	RM	RM	RM	RM	RM
Group						
At 1 January 2010	18,113,200	15,165,965	(4,646)	271,874	11,633,617	45,180,010
Effect arising from adoption of FRS 139	–	–	–	–	132,221	132,221
Total comprehensive income for the year	–	–	–	–	3,926,618	3,926,618
Purchase of treasury shares	–	–	(5,530)	–	–	(5,530)
Employees' share options scheme -options granted	–	–	–	7,681	–	7,681
Expiry of employees' share options	–	–	–	(279,555)	279,555	–
Interim tax-exempt dividend for financial year ended - 31 December 2010	–	–	–	–	(1,811,120)	(1,811,120)
At 31 December 2010	18,113,200	15,165,965	(10,176)	–	14,160,891	47,429,880

The accompanying notes form an integral part of these financial statements

	← Non-distributable			→	← Distributable →	
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
	RM	RM		RM	RM	RM
Company						
At 1 January 2009	18,113,200	15,165,965	–	249,100	5,776,283	39,304,548
Total comprehensive income for the year	–	–	–	–	2,057,127	2,057,127
Purchase of treasury shares	–	–	(4,646)	–	–	(4,646)
Employees' share options scheme -options granted	–	–	–	22,774	–	22,774
Interim tax-exempt dividend for financial year ended - 31 December 2009	–	–	–	–	(1,811,320)	(1,811,320)
At 31 December 2009	18,113,200	15,165,965	(4,646)	271,874	6,022,090	39,568,483

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY (cont'd)

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Non-distributable				Distributable	
	Share capital	Share premium	Treasury shares	Other reserves	Retained earnings	Total
	RM	RM	RM	RM	RM	RM
Company						
At 1 January 2010	18,113,200	15,165,965	(4,646)	271,874	6,022,090	39,568,483
Effect arising from adoption of FRS 139	–	–	–	–	69,748	69,748
Total comprehensive income for the year	–	–	–	–	3,320,438	3,320,438
Purchase of treasury shares	–	–	(5,530)	–	–	(5,530)
Employees' share options scheme -options granted	–	–	–	7,681	–	7,681
Expiry of employees' share options scheme	–	–	–	(279,555)	279,555	–
Interim tax-exempt dividend for financial year ended - 31 December 2010	–	–	–	–	(1,811,120)	(1,811,120)
At 31 December 2010	18,113,200	15,165,965	(10,176)	–	7,880,711	41,149,700

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

	Note	Group 2010	Group 2009 RM	Company 2010 RM	Company 2009 RM
OPERATING ACTIVITIES					
Profit before taxation		**4,005,049**	1,673,718	**3,336,838**	2,072,333
Adjustments for-					
Share-based compensation		**7,681**	22,774	**7,681**	22,774
Property, plant and equipment written-off		**7,065**	–	**7,064**	–
Reversal of impairment loss		**–**	(480,020)	**–**	(470,966)
Gain on disposal of other investments		**(72,024)**	–	**(72,024)**	–
Dividend income		**(513,508)**	(762,988)	**(700,000)**	(1,307,487)
Interest income		**(91,483)**	(2,810)	**(90,083)**	(1,726)
Share of profit in associate		**(330,665)**	(235,134)	**–**	–
Goodwill written-off		**–**	52,017	**–**	–
Operating lease expense on leased land		**61,800**	61,800	**61,800**	61,800
Gain in fair value adjustment		**(476,245)**	–	**(252,617)**	–
Depreciation		**376,284**	343,878	**263,216**	222,596
		(1,031,095)	(1,000,483)	**(774,963)**	(1,473,009)
Operating profit before working capital changes		**2,973,954**	673,235	**2,561,875**	599,324
(Increase) / decrease in inventories		**5,809**	(133,111)	**225,544**	(170,400)
(Increase) / decrease in receivables		**(2,029,932)**	2,736,081	**(2,116,769)**	2,695,750
Increase / (decrease) in payables		**728,406**	(833,566)	**142,865**	(733,421)
		(1,295,717)	1,769,404	**(1,748,360)**	1,791,929
Cash generated from operations		**1,678,237**	2,442,639	**813,515**	2,391,253
Income taxes paid		**(12,913)**	(98,541)	**(20,115)**	(23,974)
Net cash generated from operating activities		**1,665,324**	2,344,098	**793,400**	2,367,279
INVESTING ACTIVITIES					
Proceeds from disposal of other investments		**8,258,671**	–	**8,258,671**	–
Purchase of other investments		**(15,791,206)**	(12,637,869)	**(11,940,683)**	(7,277,161)
Dividend income		**810,508**	1,512,988	**700,000**	1,307,487
Interest income		**91,483**	2,810	**90,083**	1,726
Purchase of property, plant and equipment		**(178,025)**	(82,920)	**(167,676)**	(82,920)
Net cash used in investing activities		**(6,808,569)**	(11,204,991)	**(3,059,605)**	(6,050,868)
		(5,143,245)	(8,860,893)	**(2,266,205)**	(3,683,589)
FINANCING ACTIVITIES					
Purchase of treasury shares		**(5,530)**	(4,646)	**(5,530)**	(4,646)
Dividend paid		**(1,811,120)**	(1,811,320)	**(1,811,120)**	(1,811,320)
Net cash used in financing activities		**(1,816,650)**	(1,815,966)	**(1,816,650)**	(1,815,966)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,959,895)**	(10,676,859)	**(4,082,855)**	(5,499,555)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**11,496,713**	22,173,572	**6,712,876**	12,212,431
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**14**	**4,536,818**	11,496,713	**2,630,021**	6,712,876

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

1. CORPORATE INFORMATION

The principal activities of the Company are those of research, design and development of test, burn-in and application specific embedded system. The principal activities of the subsidiaries are described in Note 8 to the financial statements.

The Company is a public limited liability company, incorporated and domiciled in Malaysia, and is listed on the ACE market of Bursa Malaysia Securities Berhad.

2. BASIS OF PREPARATION

The financial statements of the Group and of the Company have been prepared under the historical cost convention unless stated otherwise in the individual policy statements set out below.

The financial statements comply with the provisions of the Companies Act, 1965 and applicable Financial Reporting Standards in Malaysia ("FRSs").

The preparation of financial statements in conformity with applicable FRSs requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported financial year. It also requires directors to exercise their judgment in the process of applying the Group's and the Company's accounting policies. Although these estimates and judgments are based on the directors' best knowledge of current events and actions, actual results may differ.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs

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

On 1 January 2010, the Group and the Company adopted the following new and amended FRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2010.

- FRS 7 Financial instruments: Disclosures
- FRS 8 Operating Segments
- FRS 101 Presentation of Financial Statements (Revised)
- FRS 139 Financial Instruments: Recognition and Measurement
- Amendments to FRS 1 First-time Adoption of Financial Reporting Standards and FRS 127 Consolidated and Separate Financial Statements: Cost of an investment in a subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 2 Share-based payment – Vesting Conditions and Cancellations
- Amendments to FRS 132 Financial Instruments: Presentation
- Amendments to FRS 139 Financial Instruments: Recognition and Measurement, FRS 7 Financial Instruments: Disclosures and IC Interpretation 9 Reassessment Of Embedded Derivatives
- Improvements to FRS issued in 2009
- IC Interpretation 9 Reassessment of Embedded Derivatives
- IC Interpretation 10 Interim Financial Reporting and Impairment
- IC Interpretation 11 FRS 2 – Group and Treasury Share Transactions
- IC Interpretation 14 FRS 119 – The Limit On a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

FRS 4 Insurance Contracts, FRS 123 Borrowing Costs and TR i-3 Presentation of Financial Statements of Islamic Financial Institutions will also be effective for annual periods beginning on or after 1 January 2010. These FRSs are, however, not applicable to the Group or the Company.

The above new FRSs, Amendments to FRSs and Interpretations are expected to have no significant impact on the financial statements of the Group and the Company upon their initial application except for the changes arising from the adoption of FRS 7, FRS 8, FRS 101 and FRS 139 as dicussed below:

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (cont'd)

FRS 7: Financial Instruments : Diclosures

FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure. of qualitative and quantitative information about exposures to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and foreign exchange risks, including sensitivity analysis to foreign exchange risks. As this is a disclosure standard, there will be no impact on the financial position or results of the Group for the year.

FRS 8: Operating Segments

FRS 8 replaces FRS 114_{2004} : Segment Reporting and requires a "management approach", under which segment information is presented on a similar basis to that used for internal reporting purposes. As a result, the Group's external segmental reporting will be based on the internal reporting to the "chief operating decision maker", who makes decisions on the allocation of resources and assesses the performance of the reportable segments. As this is a disclosure standard, there will be no impact on the financial position or results of the Group for the year.

FRS 101: Presentation of Financial Statements

The revised FRS 101 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transaction with owners, with all non-owner changes in equity presented in the statement of other comprehensive income. In addition, the standard introduces the statement of comprehensive income which presents income and expense recognised in the period. This statement may be presented in one single statement, or two linked statements. In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements. This revised FRS does not have any impact on the financial position and results of the Group.

FRS 139: Financial Instruments: Recognition and Measurement

FRS 139 provides guidance for the measurement of financial instruments. Depending on the categorisation applied for each individual financial asset and liability, some financial assets and liabilities will need to be fair valued and others are stated at amortised cost. FRS 139 prescribes prospective application for the first time adoption. Significant accounting policies adopted are summarised as below:-

<u>Financial Assets</u>

Financial assets recognised in the statement of financial position when and only when, the Group or Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group or the Company's contractual rights to the cashflow from the financial assets expires or if the Group or the Company transfer the financial assets to another party without retaining control or substantially all risks and rewards of the asset.

Initial Recognition

Financial assets within the scope of FRS 139 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group and the Company determine the classification of its financial assets at initial recognition.

Financial assets are recognised initially at fair value plus, in the case of financial asset not at a fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way purchase) are recognized on the trade date, i.e. date that the Group or Company commits to purchase or sell the assets.

The Group's financial assets include cash and cash equivalents, trade and other receivables and other investments. All financial assets of the Group and the Company are categorized as loans and receivables except for other investments which is categorised as fair value through profit and loss account.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (cont'd)

Subsequent Measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method less impairment losses. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value through profit and loss account category are financial assets held for trading. They are subsequently measured at their fair values with gains and losses recognised in statement of comprehensive income.

Financial Liabilities

Financial liabilities are recognised in the statement of financial position when, and only when, the Group or Company becomes a party to the contractual provisions of the instrument. Financial liabilities are derecognised if the Group's obligation specified in the contract expires or are discharged or cancelled.

Initial Recognition

Financial liabilities within the scope of FRS 139 are classified as financial liabilities at fair value through profit and loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities includes trade and other payables. All financial liabilities of the Group are classified as loans and borrowings.

Subsequent Measurement

Loans and borrowings are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market. Such financial liabilities are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the loans and borrowings are derecognised or impaired, as well as through the amortisation process.

Transitional provisions and effects on financial statements

In accordance with the transitional provision of FRS 139, the Group is required to remeasure the financial assets and liabilities as appropriate. Any adjustment of the previous carrying amount of the financial assets and liabilities shall be recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which FRS 139 is initially applied.

The following table provides the extent to which the consolidated statement of financial position as at 31 December 2010 is higher or lower than it would have been had the previous policies been applied in the current period. The changes have been accounted for by restating the following opening balances in the statement of financial position as at 1 January 2010:

Effect on Statement of Financial Position as at 1 January 2010

	RM
Increase in Other Investments	**132,221**
Increase in Retained Profits	**132,221**

Impairment of financial assets

FRS 139 required the Group to assess at each statement of financial position date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occured after the initial recognition of the assets (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3. CHANGES IN ACCOUNTING POLICIES AND EFFECTS ARISING FROM ADOPTION OF NEW AND REVISED FRSs (cont'd)

Standards and Interpretations issued but not yet effective

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

Description	Effective for financial periods beginning on or after
• FRS 1 First-time Adoption of Financial Reporting Standards	1 July 2010
• FRS 3 Business Combinations (revised)	1 July 2010
• Amendments to FRS 2 Share-based Payment	1 July 2010
• Amendments to FRS 5 Non-current Assets Held for Sale And Discontinued Operations	1 July 2010
• Amendments to FRS 127 Consolidated and Separate Financial Statements	1 July 2010
• Amendments to FRS 138 Intangible Assets	1 July 2010
• Amendments to IC Interpretation 9 Reassessment of Embedded Derivatives	1 July 2010
• IC Interpretation 12 Service Concession Arrangements	1 July 2010
• IC Interpretation 16 Hedges of a Net Investment in a Foreign Operation	1 July 2010
• IC Interpretation 17 Distributions of Non-cash Assets to Owners	1 July 2010
• Amendments to FRS 132 Classification of Rights Issues	1 March 2010
• Amendments to FRS 1 Limited Exemption from Comparatives FRS 7 Disclosures for First-Time Adopters	1 January 2011
• Amendments to FRS 7 Improving Disclosures about Financial Instruments	1 January 2011

The Group will adopt the above FRSs, amendments and interpretations when they become effective and they are not expected to have any significant impact on the financial statements of the Group upon their initial application.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its Subsidiaries made up to the end of the year. Subsidiaries are companies in which the Group has the ability to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has such power over another entity. Details of Subsidiaries are given on page 31.

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of Subsidiaries are prepared for the same reporting date as the Company, and uniform accounting policies are adopted in the consolidated financial statements for like transactions and events in similar circumstances. All inter-company balances and transactions, including unrealised profits or losses arising from them, are eliminated.

Acquisitions of Subsidiaries are accounted for using the purchase method. At the date of acquisition, the fair values of the Subsidiaries' assets acquired and liabilities and contingent liabilities assumed are determined and these values are reflected in the consolidated financial statements. The cost of an acquisition is measured as the aggregate of the fair values, at the date of the exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the acquisition. The excess of the acquisition cost over the Group's interest in these fair values is reflected as goodwill. The excess of the Group's interest in these fair values over the acquisition cost represents negative goodwill, which is recognised immediately in the consolidated statements of comprehensive income.

Minority interests represent the portion of profit or loss and net assets in Subsidiaries that is not held by the Group and is presented separately within equity in the consolidated statements of financial position. It is measured at the minorities' share of the fair value of the Subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in the Subsidiaries' equity since then.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Associate

Associate is that entity in which the Group exercise significant influence but not control, through participation in the financial and operating policy decisions of the entity.

Investment in associate is accounted for in the consolidated financial statements by the equity method of accounting based on the audited or management financial statements of the associate. Under the equity method of accounting, the Group's share of profits less losses of associate during the financial year is included in the consolidated statements of financial position at cost plus the Group's share of post-acquisition retained profits or accumulated losses and other reserves.

Unrealised gains on transactions between the Group and the associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are eliminated unless cost cannot be recovered.

(c) Goodwill on Consolidation

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised, but instead, it is reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill an impairment loss is recognised in the consolidated statements of comprehensive income. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold.

(d) Investment in Subsidiaries and Associate

The Company's investment in subsidiaries and associate are stated at cost less impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 4(n).

On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is recognised in the statements of comprehensive income.

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 4(n).

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

Long leasehold factory building	2%
Industrial and research and development equipment	14 – 33%
Motor vehicles	20%
Furniture and fittings, office and other equipment	8 – 33%
Electrical installation and renovation	10 – 20%

Upon the disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount is recognised in the statements of comprehensive income.

(f) Operating leases – Accounting by lessee

Lease of land where significant risks and rewards of ownership are retained by the lessor are classified as operating leases. The up-front payment represents prepaid lease payments and are amortised on a straight line basis over the period of the lease.

The unamortised amount previously recorded under property, plant and equipment, is treated as the surrogate carrying amount of prepaid lease payments.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Investment properties

Investment properties are properties which are held for long term rental yields or capital appreciation or both, and are not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and impairment losses.

Investment properties other than long leasehold land are depreciated on a straight line basis to write off the cost of the assets to their residual values over their estimated useful lives at an annual rate of 2%.

Long leasehold land is amortised over the period of the lease on a straight line basis.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

On disposal of an investment property, or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal, it shall be derecognised. The difference between the net disposal proceeds and the carrying amount is recognised in the statements of comprehensive income in the financial year of the retirement or disposal.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the weighted average basis. Net realisable value represents the estimated selling price less all estimated costs.

(i) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and cash equivalents include cash on hand and at bank, deposit and short term funds that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Income Tax

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

Deferred tax is recognised using the liability method for all temporary differences between the carrying amounts of assets and liabilities and their tax bases at the statements of financial position date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised on temporary differences arising from goodwill or negative goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realised or the liabilities are settled. The carrying amount of a deferred tax asset is reviewed at each statements of financial position date and is reduced to the extent that it becomes probable that sufficient future taxable profit will be available.

Deferred tax is recognised in the statements of comprehensive income, except when it arises from a transaction which is recognised directly in equity. In this case the deferred tax is charged or credited directly in equity. When the deferred tax arises from a business combination that is an acquisition, it is included in the resulting goodwill or negative goodwill.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Employee Benefits

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

The expected cost of accumulating compensated absences is measured as the additional amount expected to be paid as a result of the unused entitlements that have accumulated at the statements of financial position date.

(ii) Defined contribution plan
As required by law, companies in Malaysia make contributions to state pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the statements of comprehensive income as incurred.

(iii) Share-based compensation
The Group's Employees' Share Option Scheme, an equity-settled, share-based compensation plan, allows the Group's employees to exercise the options granted to acquire ordinary shares of the Company. The fair value of the share options granted in exchange for the employees services received are recognised as an expense in the statements of comprehensive income over the vesting periods of the grant with a corresponding increase in equity.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted, excluding the impact of any non-market vesting conditions. The equity amount is recognised in the share option reserve until the option is exercised, upon which it will be transferred directly to share premium, or until the option expires, upon which it will be transferred directly to retained earnings.

The proceeds received net of any directly attributable costs are credited to share capital (nominal value) and share premium when the options are exercised.

(l) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably.

(i) Sale of goods
Revenue relating to sale of goods is recognised net of discounts upon the transfer of risks and rewards.

(ii) Interest income
Interest income is recognised on a time proportion basis that reflects the effective yield on the asset.

(iii) Dividend income
Dividend income is recognised when the right to receive payment is established.

(iv) Rental income
Rental income is recognised on accruals basis.

(m) Foreign Currency Transactions

Transactions in foreign currencies are initially converted into Ringgit Malaysia at rates of exchange ruling at the date of transaction. At each statements of financial position date, foreign currency monetary items are translated into Ringgit Malaysia at exchange rate ruling at that date. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the value were determined. All exchange differences are taken to the statements of comprehensive income.

The principal exchange rate for every unit of foreign currency ruling at statements of financial position date used is as below:

	2010 RM	2009 RM
United States Dollar	**3.3900 – 3.0580**	3.3970 – 3.4620
Singapore Dollar	**2.4050 – 2.3610**	2.4410 – 2.4705

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Impairment of Assets

At each statements of financial position date, the Group reviews the carrying amounts of its assets (other than inventories, investment properties, deferred tax assets and financial assets which are dealth with in their respective policies) to determine whether there is any indication of impairment. If any such indication exists, impairment is measured by comparing the carrying values of the assets with their recoverable amounts. Recoverable amount is the higher of fair value less costs to sell and value in use, which is measured by reference to discounted future cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognised in the statements of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when the impairment losses recognised for the asset no longer exist or have decreased.

(o) Research and Development Costs

Research and development costs are expensed in the year in which they are incurred except when the cost incurred on development projects are recognised as development assets to the extent that such expenditure is expected to generate future economic benefits.

Capitalised development costs are amortised on a systematic basis over their expected useful lives.

(p) Financial Instruments

Financial instruments are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instrument.

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

Equity instruments

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

The transaction costs of an equity transaction are accounted for as a deduction from equity, net of tax. Equity transaction costs comprise only those incremental external costs directly attributable to the equity transaction which would otherwise have been avoided. Cost of issuing equity securities in connection with a business combination are included in the cost of acquisition.

The consideration paid to acquire own shares, are classified as treasury shares and presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, re-issuance or cancellation of treasury shares. When treasury shares are reissued by resale the difference between the sales consideration and the carrying amount is recognised in equity.

(q) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Provisions

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

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

(s) Segment Reporting

Segment revenue, expenses, assets and liabilities are those amounts resulting from operating activities of a segment that are directly attributable to the segment and a relevant portion that can be allocated on a reasonable basis to the segment.

Segment revenue, expenses, assets and liabilities are determinable before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

5. PROPERTY, PLANT AND EQUIPMENT

Group	Long leasehold factory building	Industrial and research and development equipment	Motor vehicles	Furniture and fittings, office and other equipment	Electrical installation and renovation	Total
	RM	RM	RM	RM	RM	RM
Net book value at 1 January 2010	**6,373,146**	**225,070**	**1**	**311,736**	**176,218**	**7,086,171**
Addition	**–**	**126,851**	**–**	**33,392**	**17,782**	**178,025**
Written-off	**–**	**(7,065)**	**–**	**–**	**–**	**(7,065)**
Depreciation charge	**(93,377)**	**(102,190)**	**–**	**(68,096)**	**(29,281)**	**(292,944)**
Net book value at 31 December 2010	**6,279,769**	**242,666**	**1**	**277,032**	**164,719**	**6,964,187**
At 31 December 2009						
Cost	6,668,830	508,627	205,541	902,178	274,180	8,559,356
Accumulated depreciation	(295,684)	(283,557)	(205,540)	(590,442)	(97,962)	(1,473,185)
Net book value	6,373,146	225,070	1	311,736	176,218	7,086,171
At 31 December 2010						
Cost	**6,668,830**	**539,920**	**205,541**	**935,570**	**291,962**	**8,641,823**
Accumulated depreciation	**(389,061)**	**(297,254)**	**(205,540)**	**(658,538)**	**(127,243)**	**(1,677,636)**
Net book value	**6,279,769**	**242,666**	**1**	**277,032**	**164,719**	**6,964,187**

(a) During the year, the Group acquired property, plant and equipment with an aggregate cost of RM 178,025 (2009 : RM 82,920) by means of cash payment.

5. PROPERTY, PLANT AND EQUIPMENT

Company	Long leasehold factory building	Research and development equipment	Furniture and fittings, office and other equipment	Electrical installation and renovation	Total
	RM	RM	RM	RM	RM
Net book value at 1 January 2010	**6,373,146**	**215,690**	**273,976**	**166,248**	**7,029,060**
Addition	**–**	**126,851**	**23,043**	**17,782**	**167,676**
Written-off	**–**	**(7,064)**	**–**	**–**	**(7,064)**
Depreciation charge	**(93,377)**	**(97,948)**	**(46,780)**	**(25,111)**	**(263,216)**
Net book value at 31 December 2010	**6,279,769**	**237,529**	**250,239**	**158,919**	**6,926,456**
At 31 December 2009					
Cost	6,668,830	456,282	403,888	242,229	7,771,229
Accumulated depreciation	(295,684)	(240,592)	(129,912)	(75,981)	(742,169)
Net book value	6,373,146	215,690	273,976	166,248	7,029,060
At 31 December 2010					
Cost	**6,668,830**	**487,675**	**426,931**	**260,011**	**7,843,447**
Accumulated depreciation	**(389,061)**	**(250,146)**	**(176,692)**	**(101,092)**	**(916,991)**
Net book value	**6,279,769**	**237,529**	**250,239**	**158,919**	**6,926,456**

(a) During the year, the Company acquired property, plant and equipment with an aggregate cost of RM 167,676 (2009 : RM 82,920) by means of cash payment.

6. PREPAID LEASE PAYMENTS

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Net book value at 1 January	**3,339,606**	3,401,406	**3,339,606**	3,401,406
Operating lease expense on leased land	**(61,800)**	(61,800)	**(61,800)**	(61,800)
Net book value at 31 December	**3,277,806**	3,339,606	**3,277,806**	3,339,606
Analyse as :				
Current				
Prepaid lease payments within one year	**61,800**	61,800	**61,800**	61,800
Non current				
Prepaid lease payments later than one year	**3,216,006**	3,277,806	**3,216,006**	3,277,806
	3,277,806	3,339,606	**3,277,806**	3,339,606

7. INVESTMENT PROPERTIES

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Net book value at 1 January	**3,553,437**	3,636,777	**–**	–
Depreciation	**(83,340)**	(83,340)	**–**	–
Net book value at 31 December	**3,470,097**	3,553,437	**–**	–
Cost	**4,413,197**	4,413,197	**–**	–
Accumulated depreciation	**(943,100)**	(859,760)	**–**	–
	3,470,097	3,553,437	**–**	–

The long leasehold land with net book value of RM 1,188,420 (2009 : RM 1,213,134) has been pledged to a licensed bank as security for banking facilities granted to a subsidiary.

8. INVESTMENT IN SUBSIDIARIES

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Unquoted shares, at cost	**–**	–	**9,464,845**	9,464,845

Details of the subsidiaries are as follows:

Name	Country of incorporation	Equity interest held 2010 %	Equity interest held 2009 %	Principal activities
Siangtronics Technology Sdn. Bhd.	Malaysia	**100**	100	Electronic devices and modules assembly, test and burn-in system integration and producing customised manufacturing solutions
AGS Automation (Malaysia) Sdn. Bhd.	Malaysia	**100**	100	Machine designing, fabrication and automation

9. INVESTMENT IN ASSOCIATE

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Unquoted shares, at cost	**2,970,000**	2,970,000	**2,970,000**	2,970,000
Share of post-acquisition profit	**665,505**	631,840	**–**	–
Share of net tangible assets	**3,635,505**	3,601,840	**2,970,000**	2,970,000
The summarised financial information of the Associate are as follows:				
Assets and Liabilities				
Total assets	**11,066,992**	10,839,882	**–**	–
Total liabilities	**1,292,944**	1,073,043	**–**	–
Results				
Revenue	**12,012,651**	9,195,965	**–**	–
Profit for the year	**1,102,218**	783,781	**–**	–

Details of associated company are as follows:

Name	Country of incorporation	Equity interest held 2010 %	Equity interest held 2009 %	Principal activities
Leso Corporation Sdn. Bhd. *	Malaysia	**30**	30	Investment Holding, research, development, commercialisation and service maintenance of Video Inspection and Measuring Software Solutions

* The accounts of this associated company is audited by UHY Diong. Management accounts (2009 – management accounts) were used in computing the Group's share of profit after tax of this associated company as no audited accounts are available. The use of management accounts is not expected to have any significant effects on the financial statements of the Group.

10. INVENTORIES

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
At cost :				
Raw materials	**1,415,377**	1,403,596	**1,260,831**	1,259,003
Work-in-progress	**262,356**	279,946	**–**	227,372
	1,677,733	1,683,542	**1,260,831**	1,486,375

11. TRADE RECEIVABLES

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Trade receivables	**3,466,987**	1,411,984	**3,389,837**	1,318,966

The Group's normal trade credit terms ranges from 30 to 90 days. Other credit terms are assessed and approved on a case by case basis.

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to group of debtors.

12. OTHER RECEIVABLES

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Deposits	**125,550**	189,950	**59,000**	59,000
Prepayments	**62,225**	17,027	**60,045**	14,147
Sundry receivables	**13,195**	19,064	**–**	–
	200,970	226,041	**119,045**	73,147

The Group has no significant concentration of credit risk that may arise from exposures to a single debtor or to group of debtors.

13. OTHER INVESTMENTS

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Unit trust and bond funds				
- At cost / fair value				
Balance at 1 January	**13,635,482**	517,593	**8,228,439**	480,312
Addition	**15,791,206**	12,637,869	**11,940,683**	7,277,161
Effect of adopting FRS 139	**132,221**	–	**69,748**	–
Reversal of impairment loss	**–**	480,020	**–**	470,966
Gain in fair value adjustment	**476,245**	–	**252,617**	–
Disposal	**(8,186,647)**	–	**(8,186,647)**	–
Balance at 31 December	**21,848,507**	13,635,482	**12,304,840**	8,228,439
Market value at 31 December	**21,848,478**	13,767,701	**12,304,840**	8,298,186

14. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Short term funds	**2,099,223**	10,308,852	**632,228**	5,815,765
Cash on hand and at bank	**2,437,595**	1,187,861	**1,997,793**	897,111
	4,536,818	11,496,713	**2,630,021**	6,712,876

Short term funds represent highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

The Group has been granted banking facilities by a licensed bank amounting to RM 2,470,000 (2009 – RM 2,470,000) by way of term loan, letters of credit, trust receipts, shipping guarantee and banker guarantee and secured over a subsidiary's long leasehold land.

15. SHARE CAPITAL

	Group and Company			
	Number of ordinary shares		Amount	
	2010	2009	2010	2009
			RM	RM
Authorised:				
Ordinary shares of RM 0.10 each	**250,000,000**	250,000,000	**25,000,000**	25,000,000
Issued and fully paid :				
Ordinary shares of RM 0.10 each	**181,132,000**	181,132,000	**18,113,200**	18,113,200
Exercise of share options	**–**	–	**–**	–
	181,132,000	181,132,000	**18,113,200**	18,113,200

	Group and Company			
	Number of ordinary shares		Amount	
	2010	2009	2010	2009
			RM	RM
Treasury shares:				
Balance at 1 January	**(10,000)**	–	**(4,646)**	–
Purchase of treasury shares	**(10,000)**	(10,000)	**(5,530)**	(4,646)
Balance at 31 December	**(20,000)**	(10,000)	**(10,176)**	(4,646)

Treasury shares

This amount relates to the acquisition cost of treasury shares net of the proceeds received on their subsequent sale or issuance.

During the financial year, the Company repurchased 10,000 (2009 -10,000) of its issued ordinary shares from the open market at an average price of RM0.55 per share. The total consideration paid for the repurchase was RM5,530 (2009 - RM 4,646). The repurchase transactions were financed by internally generated funds. The shares repurchased are being held as treasury shares in accordance with Section 67A of the Companies Act, 1965.

Of the total 181,132,000 (2009:181,132,000) issued and fully paid ordinary shares as at 31 December 2010, 20,000 (2009:10,000) are held as treasury shares by the Company. As at 31 December 2010, the number of outstanding ordinary shares in issue after the set-off is therefore 181,112,000 (2009:181,122,000) ordinary shares of RM0.10 each.

16. RESERVES

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Share premium	**15,165,965**	15,165,965	**15,165,965**	15,165,965
Other reserves	**–**	271,874	**–**	271,874
Retained earnings	**14,160,891**	11,633,617	**7,880,711**	6,022,090
	29,326,856	27,071,456	**23,046,676**	21,459,929

Movements in reserves are disclosed in statements of changes in equity.

Pursuant to the Finance Act, 2007, the single tier system has been introduced and it is to take effect from the year of assessment 2008. Under the single tier system, tax on a company's profit is a final tax and dividend distributed to shareholders will be exempted from tax. With the implementation of the single tier system, companies with a credit balance in the Section 108 account are allowed either to elect for an irrevocable option to switch over to the single tier system or to continue using the available credit balance as at 31 December 2007 until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013.

The Company has opted to switch to single tier system.

17. DEFERRED TAXATION

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
At beginning of the year	**75,500**	82,000	**–**	–
Recognised in statements of comprehensive income (Note 23)	**(2,650)**	(6,500)	**–**	–
At end of the year	**72,850**	75,500	**–**	–

The unrecognised deferred tax liabilities are as follows:

Taxable temporary difference	**20,040**	10,200	**16,930**	11,000

Deferred taxation provided in the financial statements represents the temporary differences arising between the amount attributed to property, plant and equipment for tax purposes and their carrying amount in the financial statements.

Deferred tax liabilities on taxable temporary differences amounting to RM 20,040 (2009 : RM 10,200) and RM 16,930 (2009 : RM 11,000) for the Group and the Company respectively have not been provided due to the Company and one of its subsidiaries being granted pioneer status (100% on statutory income) under Promotion of Investment Act 1986.

18. TRADE PAYABLES

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Trade payables	**276,837**	143,733	**135,135**	128,830

The normal trade credit terms granted to the Group and the Company ranges from 60 to 90 days.

19. OTHER PAYABLES

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Due to subsidiaries	**–**	–	**225,849**	441,998
Accrued operating expenses	**185,600**	38,480	**–**	–
Payroll related expenses	**965,695**	516,298	**808,831**	437,695
Sundry payables	**176,037**	194,464	**36,687**	55,114
Amount due to a director	**17,212**	–	**–**	–
	1,344,544	749,242	**1,071,367**	934,807

The amount due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The amount due to a director is unsecured, interest free and has no fixed terms of repayment.

20. REVENUE

Revenue represents the invoiced value of goods sold less discount.

21. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging / (crediting):

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Non-research and development				
- staff costs (Note 22)	**1,653,512**	1,450,452	**751,683**	773,765
Share-based compensation	**7,681**	22,774	**7,681**	22,774
Research and development expenditure				
- staff costs (Note 22)	**2,583,688**	2,120,295	**2,427,811**	1,959,082
- other	**196,956**	194,821	**196,956**	194,821
Foreign exchange				
- realised loss / (gain)	**4,524**	(158,844)	**3,299**	(159,514)
- unrealised loss	**547,621**	44,353	**547,084**	44,033
Rental income	**(592,560)**	(592,560)	**(48,000)**	(48,000)
Dividend income	**(513,508)**	(762,988)	**(700,000)**	(1,307,487)
Gain on disposal of other investments	**(72,024)**	–	**(72,024)**	–
Loss on switching	**4,958**	6,175	**4,958**	6,175
Gain in fair value adjustment	**(476,245)**	–	**(252,617)**	–
Reversal of impairment loss	**–**	(480,020)	**–**	(470,966)
Auditors' remuneration	**25,500**	25,500	**15,500**	15,500
Interest income	**(91,483)**	(2,810)	**(90,083)**	(1,726)
Operating lease expense on leased land	**61,800**	61,800	**61,800**	61,800
Goodwill written-off	**–**	52,017	**–**	–
Property, plant and equipment				
- depreciation	**292,944**	260,538	**263,216**	222,596
- written-off	**7,065**	–	**7,064**	–
Investment properties				
- depreciation	**83,340**	83,340	**–**	–

22. STAFF COSTS

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Research and development staff:				
Directors'				
- remuneration	**419,150**	357,500	**419,150**	357,500
- defined contribution plan	**79,640**	67,925	**79,640**	67,925
Other staff				
- salaries and wages	**1,830,310**	1,485,662	**1,691,807**	1,342,837
- defined contribution plan	**244,318**	199,884	**227,874**	182,736
- social security contribution	**10,270**	9,324	**9,340**	8,084
	2,583,688	2,120,295	**2,427,811**	1,959,082
Non-research and development staff:				
Directors'				
- remuneration	**111,900**	98,750	**23,900**	98,750
- defined contribution plan	**21,261**	18,763	**4,541**	18,763
Directors' fee	**112,000**	112,000	**112,000**	112,000
Other staff				
- salaries and wages	**1,251,452**	1,074,597	**538,233**	475,496
- defined contribution plan	**143,891**	132,749	**68,517**	63,826
- social security contribution	**13,008**	13,593	**4,492**	4,930
	1,653,512	1,450,452	**751,683**	773,765

The number of employees in the Group and in the Company at the end of the financial year were 48 and 27 (2009 : 48 and 26) respectively.

23. INCOME TAX EXPENSE

	Group 2010 RM	Group 2009 RM	Company 2010 RM	Company 2009 RM
Current year provision	**(81,400)**	(96,432)	**(16,400)**	(12,432)
Deferred taxation (Note 17)	**2,650**	6,500	**–**	–
Total – current	**(78,750)**	(89,932)	**(16,400)**	(12,432)
Over / (under) provision of taxation in respect of prior year	**319**	(1,793)	**–**	(2,774)
	(78,431)	(91,725)	**(16,400)**	(15,206)

23. INCOME TAX EXPENSE (cont'd)

Income tax is calculated at the Malaysian statutory tax rate of 25% (2009 : 25%) of the estimated assessable profit for the year. A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Group is as follow:

	Group		Company	
	2010 RM	2009 RM	2010 RM	2009 RM
Profit before taxation	**4,005,049**	1,673,718	**3,336,838**	2,072,333
Taxation at Malaysian statutory tax rate of 25% (2009-25%)	**(1,001,266)**	(702,021)	**(834,210)**	(518,100)
Income not subject to tax	**154,990**	519,721	**194,910**	326,900
Tax exempt income under pioneer status	**787,680**	227,400	**787,680**	227,400
Expenses not deductible for tax purposes	**(145,420)**	(67,832)	**(181,710)**	(59,632)
Over / (under) provision of tax expense in prior year	**319**	1,407	**–**	(2,774)
Taxable temporary difference not recognised during the year	**20,040**	10,200	**16,930**	11,000
Deferred tax asset recognised / (not recognised) during the year	**22,560**	(80,600)	**–**	–
Effect on share of profit in associate	**82,666**	–	**–**	–
Tax expense for the financial year	**(78,431)**	(91,725)	**(16,400)**	(15,206)

24. EARNINGS PER SHARE (sen)

(a) Basic earnings per share (sen)

Basic earnings per share of the Group is calculated by dividing profit for the year attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year, excluding treasury shares held by the Company.

	2010 RM	2009 RM
Profit for the financial year attributable to owners of the parent	**3,926,618**	1,581,993
Weighted average number of ordinary shares in issue	**181,115,836**	181,131,151
Basic earnings per share (sen)	**2.17**	0.87

(b) Diluted earnings per share (sen)

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares arising from share options granted to employees. No adjustment is made to profit for the financial year attributable to owners of the parent for the share options calculations.

	2010 RM	2009 RM
Profit for the financial year attributable to owners of the parent	**3,926,618**	1,581,993
Weighted average number of ordinary shares in issue	**181,115,836**	181,131,151
Adjustment for share options	**–**	–
Weighted average number of ordinary shares for diluted earnings per share	**181,115,836**	181,131,151
Diluted earnings per share (sen)	**2.17**	0.87

25. DIVIDENDS

	Group and Company 2010 RM	2009 RM
In respect of the financial year ended 31 December 2010:		
First interim tax exempt dividend of 1 sen per share, paid on 22 September 2010	**1,811,120**	–
In respect of the financial year ended 31 December 2009 :		
First interim tax exempt dividend of 1 sen per share, paid on 15 September 2009	**–**	1,811,320
	1,811,120	1,811,320

26. SIGNIFICANT RELATED PARTY DISCLOSURES

Identification of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Related parties of the Group include:

(i) Direct subsidiaries;
(ii) Direct associate;
(iii) Key management personnel which comprises persons (including the directors of the Company) having authority and responsibility for planning, directing and controlling the activities of the Group directly or indirectly.

	Company 2010 RM	2009 RM
Sale of raw material to AGS Automation (Malaysia) Sdn. Bhd.: - a subsidiary company	**54,875**	42,930
Purchase of finished goods from AGS Automation (Malaysia) Sdn. Bhd.: - a subsidiary company	**282,501**	117,963
Purchase of services and raw material from Siangtronics Technology Sdn. Bhd.: - a subsidiary company	**593,032**	425,890
Dividend income received from Leso Corporation Sdn. Bhd.: - an associated company	**297,000**	750,000
Rental income received from Leso Corporation Sdn. Bhd.: - an associated company	**48,000**	48,000
Purchase of raw material from Leso Instrument Sdn. Bhd.: - an associate's subsidiary	**3,063**	9,340

The outstanding balances with subsidiaries have been disclosed under Note 19.

26. SIGNIFICANT RELATED PARTY DISCLOSURES (cont'd)

The remuneration of key management personnel during the financial year are as follows:

	Group		Company	
	2010	2009	2010	2009
	RM	RM	RM	RM
Directors				
Fees	**112,000**	112,000	**112,000**	112,000
Remuneration	**531,050**	456,250	**443,050**	456,250
Defined contribution plan	**100,901**	86,688	**84,181**	86,688
Other key management personnel				
Short term employee benefits	**127,100**	114,000	**127,100**	114,000
Defined contribution plan	**24,149**	21,660	**24,149**	21,660

The directors are of the opinion that all the transactions above have been entered into in the normal course of business and have been established on terms and conditions that are not materially different from those obtainable in transactions with unrelated parties.

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its interest rate, liquidity and credit risks.

(b) Interest Rate Risk

The investment in the financial assets are mainly short term in nature and they are not held for speculative purposes but have been mostly placed in unit trust, bond funds and deposits.

Effective interest rates and repricing analysis

In respect of interest-earning financial assets, the following table indicates their effective interest rates at the statements of financial position date and the periods in which they reprice or mature, whichever is earlier.

	2010			2009		
	Effective interest rate per annum %	Total RM	Within 1 year RM	Effective interest rate per annum %	Total RM	Within 1 year RM
Group						
Financial assets:						
Short term funds	**2.46–5.03**	**2,099,223**	**2,099,223**	2.51–2.69	10,308,852	10,308,852
Company						
Financial assets:						
Short term funds	**2.56–2.76**	**632,228**	**632,228**	2.65	5,815,765	5,815,765

(c) Liquidity Risk

The Group actively manages its debt maturity profile, operating cash flows and the availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash or cash convertible investments to meet its working capital requirements.

27. FINANCIAL INSTRUMENTS (cont'd)

(d) Credit Risk

Credit risk, or the risk of counterparties defaulting are minimised and monitored via strictly limiting the Group's associations to business partners with high credit worthiness. Trade receivables are monitored on an ongoing basis via Group management reporting procedures.

A significant portion of the Group's sales in a normal year is to several major customers. The loss of these customers could have a material adverse effect on the Group's financial condition or results of operations.

To manage this risk, the Group works closely with the customers to provide customers satisfaction through timely delivery and the provision of high quality products and services at competitive cost.

(e) Fair Value

There are no material differences between the fair values of the financial assets and liabilities and their carrying amounts as reported in the balance sheet.

28. EMPLOYEES' SHARE OPTION SCHEME

Movements in the number of share options which were granted and are held by employees and independent directors are as follows:

			Number of shares				
Grant date	Expiry date	Exercise price RM/share	At start of year '000	Granted '000	Exercised '000	Lapsed '000	At end of year '000
Year ended 31.12.2010							
01.08.2005	**01.08.2010**	**0.60**	**5,493**	**875**	**–**	**(6,368)**	**–**
Year ended 31.12.2009							
01.08.2005	01.08.2010	0.60	3,993	1,500	–	–	5,493

	Group and Company 2010	2009
Number of options vested at statements of financial position date	**–**	5,493,000

The weighted average fair value of options granted during the financial year determined using the Black Scholes valuation model is RM 0.0439 per option (2009 : RM 0.0439). The significant inputs into the model are as follows:

	2010	2009
Valuation assumptions:		
Current share price (RM)	**0.60**	0.60
Exercise price (RM)	**0.60**	0.60
Volatility of share price (%)	**16.34**	16.34
Time to expiry (years)	**5**	5
Risk-free interest rate (per annum) (%)	**4**	4
Projected dividend (RM)	**0.06**	0.06

29 SEGMENTAL INFORMATION

The Group's operations comprise the following business segments:

(i) Research, design and development of test and burn-in systems and embedded peripherals; and
(ii) Design and production of specialised machinery and equipment namely material handling equipment and robotic factory automation equipment.

2010
Business segments

	Test, Burn in and Embedded Peripherals RM	Automation Equipment/ Systems RM	Total RM	Eliminations RM	Consolidated RM
Revenue	11,307,487	892,106	12,199,593	(930,408)	11,269,185
Segment results	3,782,336	189,048	3,971,384	(297,000)	3,674,384
Share of profit in associate					330,665
Profit before taxation					4,005,049
Income tax expense					(78,431)
Profit attributable to owners of the parent					3,926,618
Assets and liabilities					
Segment assets	51,286,141	3,847,658	55,133,799	(9,690,694)	45,443,105
Investment in associate					3,635,505
Unallocated assets					45,501
Total assets					49,124,111
Segment liabilities	1,453,213	394,017	1,847,230	(225,849)	1,621,381
Unallocated liabilities					72,850
Total liabilities					1,694,231

29 SEGMENTAL INFORMATION (cont'd)

2009
Business segments

	Test, Burn in and Embedded Peripherals RM	Automation Equipment/ Systems RM	Total RM	Eliminations RM	Consolidated RM
Revenue	6,042,630	423,901	6,466,531	(586,783)	5,879,748
Segment results	2,491,984	(251,383)	2,240,601	(802,017)	1,438,584
Share of profit in associate					235,134
Profit before taxation					1,673,718
Income tax expense					(91,725)
Profit attributable to owners of the parent					1,581,993
Assets and liabilities					
Segment assets	49,001,424	3,338,395	52,339,819	(9,906,843)	42,432,976
Investment in associate					3,601,840
Unallocated assets					113,669
Total assets					46,148,485
Segment liabilities	1,261,771	73,202	1,334,973	(441,998)	892,975
Unallocated liabilities					75,500
Total liabilities					968,475

30 AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 28 April 2011.

31 SUPPLEMENTARY INFORMATION

The breakdown of the retained profits of the Group and of the Company as at 31 December 2010 into realised and unrealised profits is presented in accordance with the directive issued by Bursa Malaysia Securities Berhad dated 25 March 2010 and prepared 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.

	Group RM 2010	Company RM 2010
Total retained profits of the Group and the Company		
- realised	**21,210,061**	7,880,711
-unrealised	**419,505**	–
Total share of retained profits from associated company		
- realised	**330,665**	–
-unrealised	**–**	–
Less: Consolidation adjustments	**(7,799,340)**	–
Retained profits as per financial statements	**14,160,891**	**7,880,711**

LIST OF LANDED PROPERTIES

Name of Registered Owner/Postal Address/Title Identification	Approximate Age of Building/ Tenure/Date of Expiry of Lease	Description/ Existing Use	Land area/ Built up area sq ft	Restriction in Interest/ Encumbrances	Prices Paid/ Date of Transaction/ Date of Issuance of Certificate of Fitness RM	Audited Net Book Value as at 31.12.2010 RM
Siangtronics Technology Sdn Bhd Plot 9, Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, Bayan Lepas, 11900 Penang erected on the leasehold land held under No. HSD 16397 No. Lot PT 5047 Daerah Barat Daya, Mukim 12, Penang.	10 years/ Leasehold land 60 years/ 17.01.2062	2-story factory building/ Manufacturing plant, office and warehouse	87,370/ 22,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than as approved by the Penang Development Corporation and State Authority (d) Encumbrances - a charged registered on 27.11.2002 in favour of Hong Leong Bank Berhad	RM4,170,877/ 01.04.1999/ 06.09.2004	3,311,840
Siangtronics Technology Sdn Bhd 303-4-20, Krystal Point, Jalan Sultan Azlan Shah MK12, Penang erected on part of the land held under No. GM1333, No. Lot 12033 Tempat Sungai Nibong Mukim 12, Daerah Barat Daya, Penang.	10 years/ Freehold Building/ Not Applicable	Office Lot/ Office	Not Applicable/ 1,049	Nil	RM213,930/ 10.01.1997/ 02.10.1998	158,257

Name of Registered Owner/Postal Address/Title Identification	Approximate Age of Building/ Tenure/Date of Expiry of Lease	Description/ Existing Use	Land area/ Built up area sq ft	Restriction in Interest/ Encumbrances	Prices Paid/ Date of Transaction/ Date of Issuance of Certificate of Fitness RM	Audited Net Book Value as at 31.12.2010 RM
Elsoft Research Bhd Plot 85(b), Medan Bayan Lepas, Technoplex, Bayan Lepas Industrial Zone Phase 4, Bayan Lepas, 11900 Penang erected on the leasehold land held under No. Lot 85(b) Daerah Barat Daya, Mukim 12, Penang.	5 years/ Leasehold land 60 years/60 years from the date of alienation/ date of expiry of the lease	2-story factory building/ Manufacturing plant, office and warehouse	185,453/ 50,000	(a) The land cannot be transferred, charged, leased or sub-leased, rented or encumbered in whatever manner without a written approval from the State Authority (b) The land cannot be subdivided or partitioned (c) The land and any building erected cannot be used for other usage other than as approved by the Penang Development Corporation and State Authority	RM3,710,406/ 05.11.2004/ Not Applicable	9,557,575

STATISTICS OF SHAREHOLDINGS

SHARE CAPITAL AS AT 29TH APRIL, 2011

Authorized	:	RM 25,000,000.00
Issued and Fully Paid-up	:	RM 18,113,200.00
Class of Share	:	Ordinary Shares of RM0.10 each
Voting Right	:	One vote for one ordinary share

DISTRIBUTION OF SHAREHOLDERS AS AT 29TH APRIL, 2011

Size of Holdings	No. of Holders	%	*No. of Shares	%
Less than 100	1	0.10	50	0.00
100 – 1,000	716	71.24	129,550	0.07
1,001 –10,000	122	12.14	614,200	0.34
10,001 – 100,000	96	9.55	4,240,900	2.34
100,001 – Less than 5%	65	6.47	46,224,050	25.52
Above 5%	5	0.50	129,898,250	71.72
	1,005	100.00	181,107,000	100.00

* Excluding 25,000 treasury shares

TOP THIRTY SHAREHOLDERS AS AT 29TH APRIL, 2011

	Name	Shareholdings	%
1	Tan Cheik Eaik	48,110,000	26.56
2	Tan Ai Jiew	26,785,000	14.80
3	Koay Kim Chiew	22,597,500	12.48
4	Tan Ah Lek	15,131,952	8.36
5	Tan Cheik Kooi	13,544,500	7.48
6	Tay Cheng Koon	8,955,000	4.95
7	Chan Hong Heng	8,955,000	4.95
8	Tan Ah Lek	3,729,298	2.06
9	Tan Cheng Chua	2,700,000	1.49
10	Tan Ai Bee	1,370,000	0.76
11	Wong Jong Wang	1,268,500	0.70
12	Ooi Saw Leong	1,133,800	0.63
13	Lin, Chin-Hsuing	1,000,000	0.55
14	Wong Hoo Chong	889,000	0.49
15	Hoong Kim Chai	831,000	0.46
16	Li Chung-Hsien	800,000	0.44
17	H'ng Wui Ching	786,000	0.43
18	Ooi Seang Jin	723,750	0.40
19	Wan Siew Eng	694,000	0.38
20	Lee Khay Chong	675,000	0.37
21	Huang, Mao-Hsiung	600,000	0.33
22	Goh Kee Leong	565,300	0.31
23	Chow Su-Kwin	554,400	0.31
24	Yap Wing Chun	540,000	0.30
25	Sim Ah Yoong	511,800	0.28
26	Saw Ee	508,600	0.28
27	Ang Hooi Eng	501,100	0.28
28	HLG Nominww (Tempatan) Sdn Bhd	458,000	0.25
29	Teoh Lean Sim	450,000	0.25
30	Teh Geok Yin	450,000	0.25
	Total	165,818,500	91. 56

DIRECTORS' SHAREHOLDINGS AS AT 29TH APRIL, 2011

	Name	Direct Shareholdings	%	Indirect Shareholdings	%
1	Tan Cheik Eaik	48,110,000	26.56	–	–
2	Tan Ai Jiew	26,785,000	14.79	135,000*	0.08
3	Koay Kim Chiew	22,597,500	12.48	–	–
4	Tan Ah Lek	18,861,250	10.41	–	–
5	Dato' Dr Chong Eng Keat @ Teoh Eng Keat	100,000	0.06	–	–
6	Ong Eng Choon	100,000	0.06	–	–

* Deemed interested through the shareholdings of her children pursuant to Section 134(12)© of the Companies (Amendment) Act, 2007

SUBSTANTIAL SHAREHOLDERS (EXCLUDING BARE TRUSTEES) ACCORDING TO THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 29TH APRIL, 2011

	Name	Direct Shareholdings	%	Indirect Shareholdings	%
1	Tan Cheik Eaik	48,110,000	26.56	–	–
2	Tan Ai Jiew	26,785,000	14.79	–	–
3	Koay Kim Chiew	22,597,500	12.48	–	–
4	Tan Ah Lek	18,861,250	10.41	–	–
5	Tan Cheik Kooi	13,544,500	7.48	–	–

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Eighth Annual General Meeting of the Company will be held at the Conference Room of the Company, Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Wednesday, 22 June 2011 at 11.30 a.m. for the transaction of the following business:

AS ORDINARY BUSINESS

1. To receive the Audited Financial Statements for the financial year ended 31 December 2010 together with the Reports of the Directors and Auditors thereon. **Please refer to Explanatory Note 1**

2. To re-elect Mr. Tan Cheik Eaik, the Director retiring pursuant to Article 100 (1) of the Company's Articles of Association and who, being eligible, offer himself for re-election. **Ordinary Resolution 1**

3. To appoint auditors and to authorise the Directors to fix their remuneration.

   Notice of Nomination pursuant to Section 172(11) of the Companies Act, 1965 (set out in Appendix 1 attached to the 2010 Annual Report), has been received by the Company for the nomination of Messrs. BDO who have given their consent to act, for appointment as auditors and of the intention to propose the following resolution :

   "That, Messrs. BDO be and are appointed as Auditors of the Company in place of the retiring Auditors, Messrs. Gooi & Associates, to hold office until the conclusion of the next annual general meeting at remuneration to be determined by the Directors." **Ordinary Resolution 2**

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions :

4. **AUTHORITY UNDER SECTION 132D OF THE COMPANIES ACT, 1965 FOR THE DIRECTORS TO ISSUE SHARES**

   "That, subject always to the Companies Act, 1965 ("the Act"), the Articles of Association of the Company and the approvals of the relevant government and/or regulatory authorities, the Directors be and are hereby authorised, pursuant to Section 132D of the Act, to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deemed fit, provided that the aggregate number of shares to be issued does not exceed 10% of the issued share capital of the Company for the time being and that the Directors are also empowered to obtain the approval from Bursa Malaysia Securities Berhad ("Bursa Securities") for the listing of and quotation for the additional shares to be issued." **Ordinary Resolution 3**

5. **PROPOSED RENEWAL OF SHARE BUY-BACK AUTHORITY**

   "That, subject to Section 67A of the Act and Part IIIA of the Companies Regulations 1966, provisions of the Company's Memorandum and Articles of Association, the ACE Market Listing Requirements of Bursa Securities and any other applicable laws, rules, regulations and guidelines for the time being in force, the Directors of the Company be and are hereby authorised to make purchase(s) of ordinary shares of RM0.10 each in the Company's issued and paid-up share capital on Bursa Securities subject to the following:

   (1) The maximum number of shares which may be purchased and/or held by the Company shall be equivalent to 10% of the issued and paid-up share capital of the Company ("Shares") for the time being;

(2) The maximum fund to be allocated by the Company for the purpose of purchasing the Shares shall not exceed the aggregate of the retained profits and share premium account of the Company. As of 31 December 2010, the audited retained profits and share premium account of the Company were RM7,880,711 and RM15,165,965 respectively. The retained profits and share premium account of the Company in the management account as at 31 March 2011 were RM8,101,639 and RM15,165,965 respectively;

(3) The authority conferred by this resolution will commence immediately upon passing of this ordinary resolution and will continue to be in force until:

(a) the conclusion of the next annual general meeting of the Company at which time it shall lapse unless by ordinary resolution passed at the meeting, the authority is renewed, either unconditionally or subject to conditions; or

(b) the expiration of the period within which the next annual general meeting of the Company is required by law to be held; or

(c) revoked or varied by ordinary resolution passed by the shareholders of the Company in general meeting,

whichever occurs first, but not so as to prejudice the completion of purchase(s) by the Company before the aforesaid expiry date and in any event, in accordance with the provisions of the ACE Market Listing Requirements of Bursa Securities or any other relevant authority; and

(4) upon completion of the purchase(s) of the Shares by the Company, the Directors of the Company be and are hereby authorised to deal with the Shares in the following manner:

(a) cancel the Shares so purchased; or

(b) retain the Shares so purchased as treasury shares; or

(c) retain part of the Shares so purchased as treasury shares and cancel the remainder; or

(d) distribute the treasury shares as share dividends to shareholders and/or resell on Bursa Securities and/or cancel all or part of them; or

in any other manner as prescribed by the Act, rules, regulations and guidelines pursuant to the Act and the requirements of Bursa Malaysia Securities and any other relevant authority for the time being in force;

AND THAT the Directors of the Company be and are hereby authorized to take all steps as are necessary or expedient to implement or to effect the purchase(s) of the Shares with full power to assent to any condition, modification, variation and/or amendment as may be imposed by the relevant authorities and to take all such steps as they may deem necessary or expedient in order to implement, finalise and give full effect in relation thereto." **Ordinary Resolution 4**

6. To transact any other business of which due notice shall have been given in accordance with the Company's Articles of Association and the Companies Act, 1965.

BY ORDER OF THE BOARD,

LEE PENG LOON (MACS 01258)
OOI YOONG YOONG (MAICSA 7020753)
Company Secretaries

Penang
31 May 2011

Notes on appointment of Proxy:

1. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) & (c) of the Companies Act,1965 shall not apply to the Company.
2. To be valid, the proxy form duly completed must be deposited at the Registered Office of the Company, No. 51-21-A, Menara BHL Bank, Jalan Sultan Ahmad Shah, 10050 Penang, not less than forty-eight (48) hours before the time appointed for holding the meeting.
3. A member shall be entitled to appoint two (2) or more proxies to attend and vote at the same meeting.
4. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he specifies the proportions of his shareholding to be represented by each proxy.
5. If the appointor is a corporation, the proxy form must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.

Explanatory Note :

Ordinary Business

1. Agenda 1 – Audited Financial Statements
   This Agenda item is meant for discussion only as the provision of Section 169(1) of the Companies Act, 1965 does not require a formal approval of the shareholders of the Company and hence, is not put forward for voting.

2. Directors Retiring At Eighth Annual General Meeting
   The Directors retiring at the Eighth Annual General Meeting are Mr. Tan Cheik Eaik and Mr. Ong Eng Choon.

   Mr. Ong Eng Choon has informed the Company that he does not wish to seek for re-election at the Eighth Annual General Meeting.

3. Ordinary Resolution 2 - Appointment of BDO as Auditors
   The Auditors, Messrs. Gooi & Associates, retire and do not wish to seek re-appointment.

   The Directors have confirmed that there were no disagreements with Messrs. Gooi & Associates on accounting treatments within the last 12 months and that there are no other circumstances connected with the change of auditors that should be brought to the attention of shareholders.

Special Business

4. Ordinary Resolution 3 - Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares
   The proposed Ordinary Resolution 3, if passed, will give authority to the Board of Directors to issue and allot ordinary shares from the unissued capital of the Company at any time in their absolute discretion and that such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held or revoked/ varied by resolution passed by the shareholders in general meeting whichever is the earlier.

   As at the date of this Notice, no new shares in the Company were issued pursuant to the mandate granted to the Directors at the last Annual General Meeting held on 21 June 2010 and which will lapse at the conclusion of the Eighth Annual General Meeting.

   This renewed general mandate will provide flexibility to the Company for any possible fund raising activities, including but not limited to placing of shares, for purpose of funding future investment project(s), working capital and/or acquisitions.

5. Ordinary Resolution 4 - Proposed Renewal of Share Buy-Back Authority
   The proposed Ordinary Resolution 4, if passed, will give the Company the authority to purchase its own shares up to 10% of the issued and paid-up share capital of the Company for the time being. This authority, unless renewed or revoked or varied by the shareholders of the Company in general meeting, will expire at the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting after that date is required by the law to be held, whichever occurs first.

   Detail information on the Proposed Renewal of Share Buy-Back Authority are set out on page 21 to 26.

ELSOFT RESEARCH BERHAD

(Company No. 617504-K) (Incorporated in Malaysia)

PROXY FORM

CDS account no. of authorized nominee (1) :

* I /We.............................…………..………… (*I/C No./Passport No./Company No. ………………..…………………..…)

of.......................................…….............................……………..…………...……..…………......

being * a member/members of the abovenamed Company, hereby appoint …………………………………

....……………… (*I/C No./Passport No./Company No. …………..………..………..……………)

of.................................………….........................…..................…………...

or failing whom, the Chairman, as * my/our proxy to vote for * me/us on * my/our behalf at the Eighth Annual General Meeting of the Company to be held at the Conference Room of the Company, Plot 85B, Lintang Bayan Lepas 9, Bayan Lepas Industrial Park, Phase 4, 11900 Penang on Wednesday, 22 June 2011 at 11.30 a.m. and at any adjournment thereof, on the following resolutions referred to in the Notice of Eighth Annual General Meeting.

No.	Resolutions	Ordinary	For	Against
1.	To re-elect Mr. Tan Cheik Eaik as Director of the Company	Resolution 1		
2.	To appoint Messrs. BDO as Auditors of the Company in place of the retiring Auditors, Messrs. Gooi & Associates and to authorise the Directors to fix their remuneration	Resolution 2		
3.	Authority under Section 132D of the Companies Act, 1965 for the Directors to issue shares	Resolution 3		
4.	Proposed Renewal of Share Buy-Back Authority	Resolution 4		

Please indicate with an "X" in the appropriate spaces provided above on how you wish your vote to be cast. If no specific direction as to voting is given, the proxy may vote as he thinks fit.

The percentages of shareholdings to be represented by my proxies:

	No. of shares	Percentage
Proxy 1		
Proxy 2		
Total		100%

In case of vote taken by a show of hand *first proxy "A"/second proxy "B" shall vote on my behalf.

Signed this ………. day of ……………….. 2011

Number of shares held

Signature(s) of Member(s)

* Strike out whichever is not desired.

Notes:

1. Applicable to shares held through a nominee account.
2. A proxy may but need not be a member of the Company and the provisions of Section 149(1)(b) & (c) of the Companies Act,1965 shall not apply to the Company.
3. To be valid, this form duly completed must be deposited at the Registered Office of the Company, No. 51-21-A, Menara BHL Bank, Jalan Sultan Ahmad Shah, 10050 Penang, not less than forty-eight (48) hours before the time appointed for holding the meeting.
4. A member shall be entitled to appoint two (2) or more proxies to attend and vote at the same meeting.
5. Where a member appoints two (2) or more proxies, the appointment shall be invalid unless he specifies the proportions of his shareholding to be represented by each proxy.
6. If the appointor is a corporation, this form must be executed under the corporation's seal or under the hand of an officer or attorney duly authorised.

Fold here

Fold here

stamp here

ELSOFT RESEARCH BERHAD **(617504-K)**

51-21-A, Menara BHL Bank
Jalan Sultan Ahmad Shah
10050 Penang

Fold here

Plot 85B, Lintang Bayan Lepas 9
Bayan Lepas Industrial Park, Phase 4
11900 Penang
Tel: 04-646 8122 Fax: 04-643 3918
E-mail: info@elsoftresearch.com
www.elsoftresearch.com