A Member of
SUNRIGHT

ANNUAL REPORT

KESM INDUSTRIES BERHAD (13022-A)

THE LARGEST INDEPENDENT 'BURN-IN AND TEST' SERVICE PROVIDER

- AUTOMOTIVE
- INDUSTRIAL
- PERSONAL COMPUTING
- PERSONAL COMMUNICATIONS
- CLOUD COMPUTING
- INTERNET OF THINGS
- DATA PROCESSING
- CONSUMER GAMING

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

CONTENTS

CHAIRMAN'S STATEMENT

We continue to deliver value to our shareholders with **5 years of uninterrupted profit growth** which strengthen our cash and balance sheet.

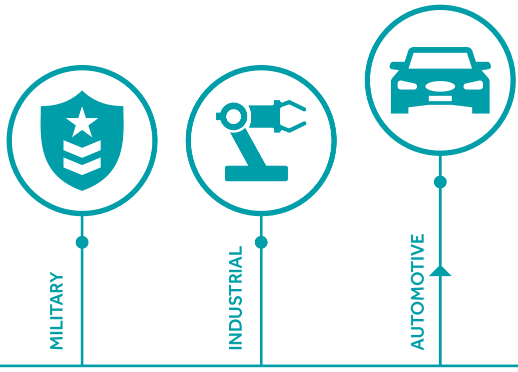
RM**338**million
Revenue
(2016: RM285.7 million)

RM**44** million
Net Profit
(2016: RM30.7 million)

102.3sen
Basic Earnings Per Share
(2016: 71.3 sen)

12.5sen per share
Dividend
(2016: 7.5 sen per share)

39 Years of expertise in testing chips



Major car makers and automotive system suppliers rely on leading chip manufacturers for their advanced semiconductor devices to drive their tomorrow's innovations in today's cars.

We are also expecting to see exponential growth rate in the global autonomous car market.

Dear shareholders,

2017 was another splendid year of solid results. We crossed the RM300 million revenue mark and achieved a record profit after tax of RM44 million and record balance sheet. We continue to deliver value to our shareholders with 5 years of uninterrupted profit growth which strengthen our cash and balance sheet. Given the volatility of the semiconductor industry, our careful financial vigilance and strategic moves into the automotive market have all served us well.

We outpaced the semiconductor industry growth performance and our share price more than doubled from RM6.88, when we began the year, to RM15.70 when we closed the year.

The numbers tell a clear story of transformation at KESM, the result of our strategic investments into high growth market segments of the semiconductor industry. These credible gains are supported by the relentless efforts of our people to keep close watch over our costs and commitment to deliver quality excellence, and raising the quality standards to serve our customers.

Major car makers and automotive system suppliers rely on leading chip manufacturers for their advanced semiconductor devices to drive their tomorrow's innovations in today's cars. Electronics in cars are becoming immensely complex. It is no longer simply a mode of transportation but also acts as a centre for communication and entertainment besides increased safety features. The content of chips in cars is increasing. We are also expecting to see exponential growth rate in the global autonomous car market.

These developments are good opportunities for us. Our business is to ship reliable chips by environmentally stressing and testing chips to the high demanding standards of the car industry. KESM has nearly four decades of expertise including providing support for chips used for defence and aerospace. Our distinctive capabilities of our manufacturing scale, unique process technology and quality have enabled us to propel forward.

Given our exceptionally good result, we rewarded our shareholders with a special interim tax exempt dividend of 6.5 sen per share amounting to RM2.8 million. Additionally, we are also raising our final tax exempt dividend from 3 sen to 6 sen per share amounting to RM2.6 million, subject to the approval of our shareholders.

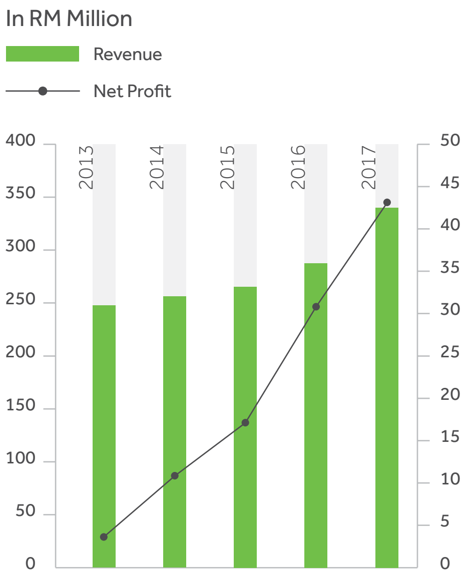
We are in a highly capital intensive manufacturing technology business and we will continue to invest in new equipment, providing advanced and cost effective solutions enabling our customers with a competitive advantage. KESM enjoys a strong market position and considerable growing opportunities. I close this letter by reaffirming our intent to care prudently for your investments in us.

I would like to express my sincere appreciation to our customers and bankers for their unwavering support; all our employees for their loyalty and dedication in achieving this remarkable result.

Samuel Lim Syn Soo
Executive Chairman & Chief Executive Officer
19 September 2017

GROUP
5-YEAR FINANCIAL HIGHLIGHTS

FY Ended 31 July (RM '000)	2013	2014	2015	2016	2017
Revenue	247,605	254,365	263,122	285,734	337,988
Profit Before Tax	14,024	19,804	24,039	36,239	47,843
Net Profit Attributable To Owners of the Company	4,569	10,883	17,031	30,683	43,994
Total Equity Attributable To Owners of the Company	235,428	245,459	260,466	286,718	329,139
Basic Earnings Per Share (sen)	10.6	25.3	39.6	71.3	102.3
Dividend Per Share (sen)	3.0	3.0	6.0	7.5	12.5



OVERVIEW OF THE GROUP

KESM Industries Berhad "KESM" commenced its burn-in business in 1978 in Kepong, Selangor Darul Ehsan. Due to rapid business growth, it relocated from Kepong to Sungei Way Free Industrial Zone in Petaling Jaya, where the operations remain today.

In 1983, the founders expanded its business in Malaysia by incorporating KESP to undertake the "burn-in" business in Bayan Lepas Free Trade Zone, Pulau Pinang.

In 1995, the Group extended its burn-in business to include testing services.

In 2007, KESM established a factory, KESM Industries (Tianjin) Co., Ltd, in the province of Tianjin, China, to provide semiconductor burn-in and test services.

KESM, listed on the Main Market of Bursa Malaysia Securities Berhad since 1994, is the largest independent burn-in and test service provider in Malaysia, serving the world's leading semiconductor manufacturers.

The Group also provides electronic manufacturing services primarily to original equipment manufacturers (OEM), original design manufacturers (ODM) in the computing, industrial, communications and consumer markets.

Today, the Group serves 5 out of the top 10 automotive semiconductor manufacturers. It employs more than 2,000 employees in these 3 locations.

Business

KESM provides burn-in, testing and electronic manufacturing services for the semiconductor industry.

The Group is the largest independent provider of burn-in and test services in Malaysia. By "independent", it is meant that the Group is not related to any of the customers.

Burn-In Service is a process for semiconductors used mostly in cars, personal computers, etc. The performance and durability of these products depend critically on the reliability of the semiconductor devices. Semiconductor manufacturers use burn-in process to eliminate these defects. Burn-in stresses each device and any potential defects due to the manufacturing and assembling processes, would fail before it is used in a finished product.

After burn-in a semiconductor device is tested to determine whether it operates as intended as well as graded for its quality by determining the electrical characteristics of the device operate within specified limits and if the device performs its specified function.

The Group provides electronic manufacturing service "EMS" as an ancillary service.

The Group's Strategy

KESM is principally involved in assuring the reliability and functionality of integrated circuits "IC" by providing burn-in and test services. Generally, semiconductor manufacturers rely on burn-in and test services to ensure functionality and reliability of their IC, by eliminating defects that occur during their manufacturing process.

The Group's strategy is to offer seamless and complete burn-in and test solutions for semiconductor manufacturers. By combining our expertise in software and hardware solutions and building on our 39 years' experience in semiconductor burn-in and test, our customers can focus on their core competencies in bringing their new product developments to the market in an efficient and cost effective manner.

Review of Financial Results

The information in this management discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the notes related thereto.

The Group achieved revenue of RM338.0 million in the financial year ended 31 July 2017 ("FY2017"), an improvement of RM52.3 million or 18%, against RM285.7 million recorded in the financial year ended 31 July 2016 ("FY2016"), as a result of higher demand for burn-in and test services.

Employee benefits expense increased by RM14.1 million or 14%, from RM98.8 million in FY2016 to RM112.9 million in FY2017. This was primarily due to adjustments of wage rates and higher staff compensation to support the increased revenue, improved staff welfare, training and skills upgrading to raise productivity and production efficiency.

Depreciation was higher by RM11.5 million or 21%, from RM55.2 million in FY2016 to RM66.7 million in FY2017, as more machinery and test equipment were installed during the financial year.

Other expenses were higher by RM13.4 million or 20% from RM65.4 million in FY2016 to RM78.8 million in FY2017. This was largely due to higher expenses on repairs and maintenance by RM7.7 million and utilities by RM1.9 million to support the increased revenue.

Consequently, the Group recorded a net profit of RM44.0 million in FY2017, representing an increase of RM13.3 million or 43%, compared to RM30.7 million in FY2016.

Review Of Financial Position, Liquidity And Capital Resources

Property, plant and equipment ("PPE") increased from RM169.8 million as at 31 July 2016 to RM242.9 million as at 31 July 2017. The increase in PPE by RM73.1 million was primarily the result of high capital investments, totalling RM140.2 million, offset by the yearly depreciation of RM66.7 million in FY2017. The high capital expenditure is largely driven by the strong demand for the services, primarily to increase the burn-in and test capability and capacity.

Trade and other receivables were higher by 17% from RM70.4 million as at 31 July 2016 to RM82.7 million as at 31 July 2017. The increase was attributable to the increase in trade receivables of RM12.2 million as a result of higher sales.

The Group has cash and short-term deposits amounting to RM127.6 million as at FY2017. This was an increase of RM14.8 million from RM112.7 million as at FY2016, which represented the net surplus cash generated from operations.

Trade and other payables were higher by 75% from RM42.5 million as at FY2016 to RM74.6 million as at

MANAGEMENT DISCUSSION AND ANALYSIS

MORE THAN
1.7 billion
semiconductors were processed in our factories in Malaysia and China.

Our customers span across the USA, Europe and Asia Pacific.

18%
increase in revenue

43%
improved net profit

FY2017. The increase was primarily the result of higher payables due for purchases of machinery and test equipment by RM19.4 million, as well as higher accrued operating expenses and payables by RM10.4 million to support the increased operational scale.

The Group's loans and borrowings increased from RM39.4 million to RM69.5 million as at 31 July 2017, to fund the capital expenditure during the financial year.

Operations Review

KESM serves the segment of the industry that requires fail-safe and highly reliable semiconductors including microprocessors, microcontrollers, sensors used in automotive, consumer and commercial products. Our customers span across the USA, Europe and Asia Pacific and include the top ten semiconductor manufacturers.

During FY2017, more than 1.7 billion semiconductors were processed in our factories in Malaysia and China, representing an increase of 19% over FY2016. We believe excellence in our manufacturing, quality culture and providing superior responsiveness in meeting customers' demands, created a competitive advantage, further boosted our efforts in productivity and innovation solutions.

To process high volume automotive devices, the highest and consistency in quality of semiconductors have to be maintained. To meet these high standards, KESM developed several proprietary tools to track the extensive quality data collected in the identification of devices in real-time and made these information readily accessible for our customers at any time and from anywhere in the world. Also, we have developed an intelligent real-time based OEE monitoring system a powerful tool to optimize the throughput of all the testers by analysing the data on every production load.

Our revenue for FY2017 reached RM338 million, representing an 18% increase over RM285.7 million last year. Consequently, net profit improved by 43% this year from FY2016. Better processes make us more productive, established KESM as a stronger, more competitive company – one that creates significant value to our shareholders.

Risks

The semiconductor industry is not only cyclical but highly capital-intensive in nature. It is often characterized by constant and rapid technological changes which obsolete our customers' products rapidly. KESM intends to mitigate this by collaborating closely with our customers at their new product introduction stage and proper allocation of our capital investments in support of customers' manufacturing capacities.

There are some uncertainties with respect to the pace of rising labour costs, minimum wage imposed by the respective governments in the various countries which we operate in. Increased labour costs and competition for qualified personnel may hinder us from staff retention.

KESM generates a large number of revenue from a small number of customers because although we operate in the US$300 billion semiconductor industry, KESM focuses mainly on the automotive segment. Only a handful of these manufacturers design and manufacture chips for the automotive market. We expect our service to these customers to continue in the foreseeable future, since we are well integrated into their supply chain.

Prospects & Outlook

The semiconductor industry is highly cyclical although our focus on the automotive segment is more resilient than other segments such as personal computers and consumer markets. Our performance may be affected by the challenging macroeconomic environment which remains challenging due to continuing volatility in oil prices, currencies and the growing protectionism of trade pacts amongst countries that may impact global trade and hence the worldwide GDP growth.

Generally, the outlook for the worldwide semiconductor industry remains positive according to latest industry forecasts, expecting to increase in the range of 11.5% to 16.8% in 2017. The automotive, industrial and data processing sectors are expected to be fastest growing segments in the semiconductor industry whilst the traditional personal computers "PC" is expected to be the laggard. It is interesting to watch the Internet of Things "IOT" which will be the main driver of communications and consumer segment.

Historically, we remained profitable despite the many downturns in the global semiconductor industry as well as the various financial crises and economic slowdowns. We are optimistic that we will continue to perform well as the semiconductor industry indicators are pointing favourably. We will continue our relentless efforts to strive for greater productivity through innovation and factory automation with a close watch over our costs, as we work towards increasing value-add for our customers.

KESM does not have a stated dividend policy. However, we have a track record of paying a proportion of our sustainable earnings as dividends. Such payments are dependent on a number of factors, such as earnings, cash requirements, capital commitments, general economic and industry environments which are reviewed and considered by the Board.

MR SAMUEL LIM SYN SOO
Aged 63, Singaporean
Non-Independent Executive Director

Mr Samuel Lim is the Executive Chairman and Chief Executive Officer of the Company and has been on the Board since 6 September 1986. He was last re-elected on 14 January 2016. Mr Lim co-founded and led the Company to become Malaysia's largest independent provider of burn-in and testing services.

Mr Lim holds a Diploma in Industrial Engineering (Canada) and has more than 45 years of experience in the semiconductor and electronics industry. Prior to the establishing of KESM Industries Berhad, Mr Lim held senior positions including engineering, manufacturing and marketing in U.S. multinational companies. As one of the pioneers in the local semiconductor burn-in and test industry, Mr Lim received 3 U.S. patent families in recognition of his inventions in various solutions involving "Burn-in and test".

Mr Lim also sits on the Board of Sunright Limited, a company listed on the Main Board of the Singapore Exchange Securities Trading Limited and several other private companies in Singapore, Malaysia, Taiwan, China, Philippines and USA.

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

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

MR KENNETH TAN TEOH KHOON
Aged 60, Singaporean
Non-Independent Executive Director

Mr Kenneth Tan was first appointed to the Board on 20 January 1992 and was last re-elected on 4 January 2017.

Mr Tan is responsible for the Group's strategic direction, corporate affairs, investor relations and oversees the financial management of the Group.

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

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

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

MS LIM MEE ING
Aged 66, Singaporean
Non-Independent Non-Executive Director

Ms Lim was first appointed to the Board on 19 February 1990 and was last re-elected on 4 January 2017. She is also a member of the Audit Committee and Nominating Committee.

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

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

TUAN HAJI ZAKARIAH BIN YET, AMS, AMN
Aged 62, Malaysian
Senior Independent Non-Executive Director

Tuan Haji Zakariah was first appointed to the Board on 27 January 1995 as a Non-Independent Non-Executive Director and was re-designated as Independent Non-Executive Director on 8 March 2011. He was last re-elected on 15 January 2015.

Tuan Haji Zakariah is also the Senior Independent Director and Chairman of the Audit Committee and Nominating Committee.

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

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

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

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

MR YONG CHEE HOU
Aged 60, Malaysian
Independent Non-Executive Director

Mr Yong was first appointed to the Board on 11 January 2002 and was last re-elected on 14 January 2016. He is also a member of the Audit Committee and Nominating Committee of the Company.

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

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

OTHER INFORMATION ON DIRECTORS

1. FAMILY RELATIONSHIP

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

2. CONFLICT OF INTEREST

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

3. CONVICTIONS OF OFFENCES

None of the Directors have been convicted of any offence within the past five (5) years other than traffic offence, if any.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2017

Name of Directors	No. of Meetings Attended	Percentage %
Mr Samuel Lim Syn Soo	5 out of 5	100
Mr Kenneth Tan Teoh Khoon	5 out of 5	100
Ms Lim Mee Ing	5 out of 5	100
Tuan Haji Zakariah Bin Yet	5 out of 5	100
Mr Yong Chee Hou	5 out of 5	100

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

Mr Kenneth Tan Teoh Khoon
(Executive Director)

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

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

Mr Yong Chee Hou
(Independent Non-Executive Director)

AUDIT COMMITTEE

Tuan Haji Zakariah Bin Yet
(Chairman)

Mr Yong Chee Hou
(Member)

Ms Lim Mee Ing
(Member)

NOMINATING COMMITTEE

Tuan Haji Zakariah Bin Yet
(Chairman)

Mr Yong Chee Hou
(Member)

Ms Lim Mee Ing
(Member)

COMPANY SECRETARY

Ms Leong Oi Wah
(MAICSA 7023802)

REGISTERED OFFICE

802, 8th Floor
Block C, Kelana Square
17 Jalan SS7/26
47301 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel : 603-7803 1126
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SHARE REGISTRAR

Boardroom Corporate Services (KL) Sdn Bhd
Lot 6.05, Level 6, KPMG Tower
8, First Avenue
Banda Utama
47800 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel : 603-7720 1188
Fax : 603-7720 1111
Email: marketing.my@boardroomlimited.com

AUDITORS

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

PLACE OF INCORPORATION

Malaysia

COMPANY REGISTRATION NO.

13022-A

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
Main Market

STOCK NAME

KESM

STOCK CODE

9334

SECTOR

Technology

WEBSITE

www.kesmi.com

OTHER INFORMATION

During the financial year under review,

1. UTILISATION OF PROCEEDS RAISED FROM ANY CORPORATE PROPOSAL

there were no proceeds raised from corporate proposal.

2. NON-AUDIT FEES

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

3. MATERIAL CONTRACTS

there were no material contracts entered into by the Company and its subsidiaries involving Directors' and major shareholders' interests, either still subsisting at the end of the financial year ended 31 July 2017 or entered into since the end of the previous financial year.

AUDIT COMMITTEE'S REPORT

The Audit Committee ("the Committee") is pleased to present its report for the financial year ended 31 July 2017 ("FY2017").

COMPOSITION

The Committee currently comprises the following directors: -

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

KEY FUNCTIONS AND RESPONSIBILITIES

The Committee has clear written Terms of Reference ("TOR") defining its functions, qualifications for membership, scope of duties and responsibilities, regulations and procedures governing the manner in which the Committee is to operate and how decisions are to be taken.

The TOR is available on the Company's website.

MEETINGS AND ATTENDANCE

The Committee met five (5) times in FY2017. Other Board members, senior management staff and the company secretary attended the meetings upon invitation of the Committee. The representatives of the internal and external auditors were also present during deliberations which required their inputs and advice.

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

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

SUMMARY OF THE WORK OF THE COMMITTEE

During FY2017, the Committee: -

Financial Reporting

1. reviewed with the external auditors their audit for the financial year ended 31 July 2016 ("FY2016") to ensure that the audited financial statements were prepared to give a true and fair view in compliance with applicable Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965; discussed their audit findings and accounting issues arising from their audit together with their recommendations and management's responses; and considered management's handling of impairment assessment, corrected or uncorrected misstatements and unadjusted audit differences;

2. enquired and discussed with the external auditors on new developments of accounting standards that are applicable to the Company;

3. reviewed and recommended the audited financial statements of the Company and of the Group for FY2016 for the Board's approval; and

4. reviewed the unaudited quarterly results of the Group to ensure compliance with applicable approved accounting standards and Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR"), appropriate accounting policies had been adopted and applied consistently and narrative disclosures made were correct and comprehensive.

External Audit

1. considered management's feedback on the service delivery of the external auditors and their audit fees and recommended their re-appointment;

2. reviewed the external auditors' report on the Statement on Risk Management and Internal Control in respect of FY2016 to ascertain that the disclosures are consistent with the Company's established systems of risk management and internal control prior to Board's approval;

3. reviewed the audit plan for FY2017 with the external auditors with focus on the audit engagement team, areas of audit emphasis and impairment assessment, multilocation scoping and audit timeline;

4. reviewed the external auditors' confirmation of independence and was satisfied that the non-audit services rendered were immaterial to impair their independence and the audit partner had been rotated; and

5. met with the external auditors twice in FY2017 without the presence of Executive Board members and senior management to enquire about management's co-operation with the external auditors, sought clarification on certain issues arising from the final audit and ascertained no significant weaknesses were noted in the internal control system and no frauds were noted in the course of their audit.

Internal Audit

1. reviewed the internal audit plan and was satisfied that the internal auditors employed a systematic and reasonable methodology to select suitable audit areas and the corresponding group companies targeted for audit review;

2. reviewed and discussed the internal auditors' reports which highlighted the risk profiles and assessments, their recommendations, management responses and actions;

3. reviewed and discussed with the internal auditors on their follow-up audit on prior year's audits to ensure management had carried out the agreed actions timely;

4. enquired with the internal auditors and was satisfied that they did receive full information and co-operation from management during their audit reviews; and

5. conducted annual assessment of the competency and effectiveness of the internal auditors and was satisfied that the audit team has the relevant qualifications, adequate expertise and experience to conduct the audit competently and they have also demonstrated to provide quality audit performance.

Related Party Transactions

1. reviewed the recurrent related party transactions ("RRPT") of the Group quarterly to:

    (i) ascertain that they were entered in accordance to the Company's established guidelines and procedures, and within the mandated limits, on normal commercial terms and were not detrimental to the interest of the Company and its minority shareholders; and

    (ii) monitored the aggregate value transacted to determine if the threshold had been breached to warrant immediate announcement to Bursa Securities.

2. submitted the aforesaid RRPT to the Board for ratification and approval.

3. reviewed the Audit Committee Statement in the Circular to Shareholders in relation to the:-

   (i) proposed renewal of the existing shareholders' mandate for RRPT of a revenue or trading nature;

   (ii) proposed new shareholders' mandate for additional RRPT of a revenue or trading nature; and

   recommended to the Board to include the same in the Circular.

Other

1. prepared the Committee's report in respect of FY2016 and presented it to the Board for approval.

SUMMARY OF THE WORK OF INTERNAL AUDIT FUNCTION

During the financial year under review, the internal auditors:

1. presented the internal audit plan for the Committee's approval at the second meeting of the Committee;

2. conducted audit review in accordance to the approved audit plan, which covered the following business processes or areas:-

   – Human Resources Management
   – Cyber Security and Controls
   – RRPT
   – Revenue Management
   – Enterprise Risk Review

   and presented the audit reports to the Committee; and

3. carried out follow-up audit review on prior year's audits and presented the outcome of their review to the Committee.

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

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") is committed to ensuring that good corporate governance practice is observed throughout the Group as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group.

This Statement provides an overview of the corporate governance practices adopted by the Company in respect of the financial year ended 31 July 2017 ("FY2017"). It outlines the manner in which the Company has complied with the key principles and supporting recommendations set out in the Malaysian Code on Corporate Governance 2012 ("Code"). The Board is pleased to report that the Company complied substantially with the Code except where specifically identified and explained in this statement.

The Board is aware that the Company is to apply the released Malaysian Code on Corporate Governance 2017 ("New Code") by Securities Commission Malaysia on 26 April 2017 and to report the application of the practices of the New Code for the financial year ending 31 July 2018 ("FY2018"). The Board is reviewing each of the best practices of the New Code and will do its best to implement the best practices during FY2018 or provide suitable alternative approach and may defer some to the following years. In this respect, the Best Practice 4.2 would be deferred.

BOARD OF DIRECTORS

Roles and Responsibilities

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

The functions reserved for the Board and those delegated to management have been clearly defined in a Board Charter as well as in internal guidelines which set forth matters that require the Board's approval.

The Board assumes the responsibilities and performs the duties stipulated in the Articles of Association of the Company ("Articles"), Companies Act 2016 ("the Act"), Main Market Listing Requirements of Bursa Malaysia Securities Berhad ("MMLR") and any applicable rules, laws and regulations, which are outlined in the Board Charter. Additionally, the Board also undertakes leadership duties, which broadly includes:

- review and adoption of the overall strategic plan for the Company and the Group;
- oversight of the conduct of the Company's business;
- monitor compliance with all relevant statutory and legal obligations;
- approval of the annual budgets;
- identification of principal risks and ensuring implementation of appropriate risk management and internal control measures;
- oversight of succession planning of senior management;
- development and implementation of a shareholder communication policy; and
- review of the adequacy and integrity of the management information and internal control system.

The Board performs the aforesaid responsibilities and duties by ensuring the relevant matters are discussed or included in its regular Board's and Board committee's agendas at appropriate juncture throughout the year. To this end, the Board:

- obtains feedback from senior management to ensure that the strategic plan is aligned to market and is customer-centric;
- receives senior management's updates on key developments in the industry, Group's businesses and customers as well as presentation on the Group's financial performance at the regular meetings held throughout the year;
- ensure there is open channel for shareholders to raise questions at shareholders' meeting;

- deliberates on announcements and press releases to ensure they are prepared to provide factual and meaningful disclosures;
- ensures material information are released on timely basis and respond to press interviews;
- delegates the function of succession planning of the senior management staff of the business units to the Executive Directors as they are in the best position to plan and decide given their direct and close working relationship with the business units; and
- receives regular reports from the internal auditors and management pertaining to their reviews of the Group's internal controls and risk management matters.

The senior management, led by the Chief Executive Officer and guided by the approved strategic plans of the Company, develops the operating plans, puts them into actions, monitors actual results against planned performance and implements corrective actions and ensure compliance with all relevant statutory and legal obligations, implement a proper risk management systems and its associated internal controls, develops programs for better investor relations and shareholder communications, develops and implements policy and procedures to ensure adequacy and integrity of management information and internal control systems and implements effective corporate governance structures and its associated internal control system.

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

- Audit Committee
- Nominating Committee

Board Composition and Balance

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

As at FY2017, the Board comprises five (5) directors, three (3) of whom are non-executive. Of the non-executive directors, two (2) are independent. The profiles of each Director and other relevant information are set out in the "Board of Directors" and "Other Information on Directors" sections of this Annual Report.

The Board considers its current composition and size to be appropriate and effective, taking into account the nature and scope of the Group's operations and fairly reflects the investment of minority shareholders in the Company.

Separation of Chairman and Chief Executive Officer

Given the present structure and scale of the Group's businesses, the roles of the Chairman and Chief Executive Officer ("CEO") are not separated. Mr Samuel Lim is both the Chairman and CEO of the Company.

The Board is of the view that given the nature and size of the Group's businesses, it is advantageous to vest the roles of both the Chairman and CEO on the same person who, in the unique position as co-founder, is knowledgeable about the businesses of the Group to ensure its proper management and continual success. In this manner, the Group also benefitted from a strong and consistent leadership to ensure effective planning and execution of its long term business strategies. At the same time, in his capacity as Chairman, Mr Samuel Lim can effectively guide discussions to ensure that the Board is properly briefed in a timely manner on pertinent issues and developments of the Group's businesses. The combined role, therefore, has the weight of corporate history and clear reporting lines on its side.

The Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed, interested. All related party transactions involving him are dealt with in accordance with the provisions of the MMLR. Moreover, the Senior Independent Non-Executive Director, Tuan Haji Zakariah Bin Yet, is available to deal with concerns regarding the Company where it could be inappropriate for these to be dealt with by the Chairman/CEO.

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

Recommendation 3.5 of the Code states that the Board should comprise a majority of independent directors where the chairman is not an independent director. The Board did not adopt this recommendation as it is of the view that Mr Samuel Lim's performance and objectivity in discharging his responsibilities as Chairman, notwithstanding his executive role, has not compromised the effective functioning of the Board. As Chairman, he ensures discussions at the Board level are conducted objectively and professionally where all views are heard and key issues are debated in a fair and open manner. With the assistance of the company secretary, the Chairman schedules Board meetings as and when required, prepares the agenda and ensures sufficient allocation of time for thorough discussion on each agenda item, including strategic issues. He also plays a pivotal role in fostering constructive dialogue between shareholders, the Board and the management at shareholders' meetings.

Re-election

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

Tenure of Independent Director

The Code stipulates that the tenure of an Independent Director should not exceed a cumulative period of nine (9) years and upon the completion of the nine years, an Independent Director may continue to serve on the Board subject to the Director's re-designation as a Non-Independent Director. The Code urges the Board to justify and seek shareholders' approval in the event it retains as an Independent Director, a person who has served in that capacity for more than nine years.

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

Subsequent to FY2017, the Board conducted an appraisal on the independence of Tuan Haji Zakariah Bin Yet and Mr Yong Chee Hou and concluded that they met the independence criteria as set out in the MMLR and they continue to maintain independent and objective views in rendering their services.

Board Meetings

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

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

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

Formalised Ethical Standards

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

The Company also has in place a whistle blower policy which outlines the procedures when, how and to whom employees may report and raise in good faith and in confidence, any concern about possible improprieties in matters of financial reporting or other matters. The policy had been disseminated to the employees through the usual communication channel of the Company and its subsidiaries.

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

Corporate Social Responsibility and Sustainability

Caring for the Environment

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

Social - The Workplace

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

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

The Company is an equal opportunity employer and treats all employees fairly, regardless of their race, religion, gender, age, marital status and nationality. The Group does not have a policy on workforce diversity of gender, ethnicity and age. However, the Group is committed to cultivate a climate of diversity and inclusiveness via its non-discriminatory recruitment processes.

Governance

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

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

TIME COMMITMENT

All Directors are made aware that they must commit adequate time to devote to his/her Board responsibilities in the Company. To this end, the Directors are made aware that they

- have to attend Board and Board committee meetings physically, or otherwise via teleconference (where practicable) if such physical attendance is not possible;
- are to attend courses to update their knowledge and better equip themselves to discharge their duties as Directors; and
- shall before accepting invitation to serve on another Board,
  - ensure that he/she is not already serving on the Board of five (5) public listed companies; and
  - gives prior notification to the Chairman.

DIRECTORS' TRAINING – CONTINUING EDUCATION PROGRAMMES

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

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

The Company has an allocated training budget amount and the Directors are encouraged to attend training to develop their skills and competencies. In FY2017, the Directors had attended the following courses:-

Name of Director	Course Title / Date	Duration	Organiser
Samuel Lim Syn Soo	Management Discussion & Analysis For Chief Executive Officers And Chief Financial Officers 16 August 2016	Half Day	Bursa Malaysia
	Companies Act 2016 9 March 2017	1 hour	In- House
	Malaysian Code on Corporate Governance 1 June 2017	1 hour	In-House
	Sustainability Reporting 28 July 2017	1 hour	Ernst & Young LLP
Kenneth Tan Teoh Khoon	Board Chairman Series Part 2: "Leadership Excellence From The Chair" 11 August 2016	1 day	Bursa Malaysia
	The Interplay Between CG, Non-Financial Information (NFI) and Investment Decision 28 September 2016	Half Day	Bursa Malaysia
	Companies Act 2016 9 March 2017	1 hour	In-House
	Malaysian Code on Corporate Governance 1 June 2017	1 hour	In-House
	Sustainability Reporting 28 July 2017	1 hour	Ernst & Young LLP
Lim Mee Ing	Companies Act 2016 9 March 2017	1 hour	In-House
	Malaysian Code on Corporate Governance 1 June 2017	1 hour	In-House
	Sustainability Reporting 28 July 2017	1 hour	Ernst & Young LLP

Name of Director	Course Title / Date	Duration	Organiser
Tuan Haji Zakariah Bin Yet	The Evolving Role of Audit Committee in Governance, Risk and Control 21 November 2016	Half Day	The Institute of Internal Auditors Malaysia and Malaysian Institute of Corporate Governance
	Companies Act 2016 9 March 2017	1 hour	In-House
	Malaysian Code on Corporate Governance 1 June 2017	1 hour	In-House
Yong Chee Hou	Companies Act 2016 9 March 2017	1 hour	In-House
	Malaysian Code on Corporate Governance 1 June 2017	1 hour	In-House

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

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

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

In furtherance of their duties, the Directors may also seek independent professional advice at the Company's expense if circumstances necessitate it. The procedures for obtaining such advice comprise prior consultation with the Chairman and to obtain the relevant approval of the Chairman or Board, depending on the quantum of the fees to be incurred.

QUALIFIED AND COMPETENT SECRETARY

The Board is supported by a professionally qualified company secretary who has many years of experience handling public listed companies.

The company secretary is accountable to the Board on all matters connected with the proper functioning of the Board. To this end, she is responsible for (i) assisting the Chairman and the chairmen of the Board Committees in developing the agendas for the meetings; (ii) administering, attending and preparing the minutes of meetings of the Board, Board Committees and shareholders; (iii) advising on statutory and regulatory requirements and the resultant implication of any changes that have bearing on the Company and the Directors; (iv) advising on matters of corporate governance; (v) monitoring compliance with the Act , the MMLR and the Articles of the Company; (vi) ensuring Board policies and procedures are adhered to; (vii) acts as liaison to ensure good information flow within the Board, between the Board and its Committees as well as between management and the Directors; (viii) facilitating orientation of new director; and (ix) disseminating suitable training courses and arranging for Directors to attend such courses when requested.

Every Director has full access to the advice and services of the company secretary. The company secretary and the senior management proactively monitor and guide the Board on the corporate disclosure requirements stipulated in the MMLR to ensure the Company is in compliance and makes timely disclosures.

BOARD CHARTER

The Company's Board Charter ("Charter") sets out:

- the Board structure and protocols;
- the Board's strategic intent;
- key values, principles and ethos of the Company;
- the Board's roles and responsibilities, outlining the division of the responsibilities and powers between Board and management; the different Board committees and between the Chairman and CEO; and
- the processes and procedures for convening Board meetings.

The Board will periodically review the Charter to ensure that it remains consistent with the Board's objectives, meet the needs of the Company and is in compliance with applicable laws and regulatory requirements.

The Code recommends that the Charter be published on the Company's website. However, the Board has concluded that there is no commercial benefit to publicise such self-governance document. Instead, an abridged version of the current Charter is posted on the Company's website at www.kesmi.com.

NOMINATING COMMITTEE

Composition

The Nominating Committee ("NC") comprises the following directors :-

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

Key Functions, Roles and Responsibilities

The NC has clear written Terms of Reference ("TOR") defining its functions, qualifications for membership, scope of duties, regulations and procedures governing the manner in which the Committee is to operate and how decisions are to be taken.

The TOR is available on the Company's website.

Board Nomination and Selection Process

When the need arises to appoint new member of Board, the Board will specify the requirements. The NC will be guided by the procedures outlined in the Charter to source, select and shortlist suitable individuals, for the Board's consideration.

Statement on Activities

The NC met once in FY2017 and the attendance of members was as follows:

Name of Members	No. of Meeting
Tuan Haji Zakariah Bin Yet	1/1
Mr Yong Chee Hou	1/1
Ms Lim Mee Ing	1/1

The Company Secretary was in attendance to record the proceedings of the meeting.

In FY2017, the NC

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

in respect of their performance for FY2016.

The evaluation criteria used for the assessment of the Board comprised assessment of its structure, operation, roles and responsibilities and that of the Chairman whereas the Board Committees were assessed based on their composition, contribution to the Board's effectiveness and discharge of their duties. Some of the factors used to evaluate the performance of the individual Director included contribution to interaction, attendance and participation at meetings and decision-making, quality of input as well as understanding of his/her role and responsibilities. The assessment and comments by all Directors were summarised and reported to the Board by the Chairman of the NC. All assessments and evaluations carried out by the NC in the discharge of its functions were properly documented.

From the results of the assessment, which included an evaluation of the mix of skills and experience possessed by the Directors, the NC was satisfied that the Board has the right size and the Board composition is well balanced having considered the appropriate mix of skills, experience, strength and independence and the diversity required to meet the current and future needs of the Company. The Board concurred with the NC's assessment that the current Board's size and composition has continued to enable the Board to operate effectively. Therefore, no new Board nomination is deemed necessary.

At the meeting, the NC also evaluated the eligibility of the retiring Directors by rotation to stand for re-election at the previous Annual General Meeting and nominated Messrs Kenneth Tan Teoh Khoon and Lim Mee Ing for re-election, pursuant to Article 80 of the Company's Articles of Association.

BOARD DIVERSITY

The Board is of the view that the composition of the Board requires consideration of a number of factors, such as the character, availability of time, mix of skills, abilities and expertise, the length of time served on the Board, the independence criteria as well as experience on other Boards. Therefore, the Board is not establishing a diversity policy on nationality, gender, ethnicity and age or setting any target. The table below provides an overview of the diversity of the Board:

Board Diversity at a Glance

Gender:	Male – 80%	Female – 20%
Ethnicity:	Malay – 20%	Chinese – 80%
Nationality:	Malaysian – 40%	Singaporean – 60%
Age range :	51 to 60 Years: 40%	61 to 70 Years: 60%
Independence:	Non-Independence: 60%	Independence: 40%
Core competencies:	Accounting, banking, business acumen, engineering, finance, general management, human resources, industry knowledge, legal, marketing, manufacturing and strategic development.	

Notwithstanding the current age ranges, the Board believes that this generation brings skills, experience and talents to the Board.

DIRECTORS' REMUNERATION

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

The Board has established remuneration policies and procedures that are formalised in the Charter. Broadly, these encompass:

- Periodic review
- Determination of directors' fees based on:-
  - reference to prevailing market practices of comparable companies in similar industry;
  - basic fee for membership of the Board;
  - fee for chairmanship of the Board;
  - fee for membership of Board Committee; and
  - fee for chairmanship of Board Committee.
- Determination of remuneration package of Executive Directors is based on market trends and the performance of the Group.
- Abstention of Directors in determining his/her own fees or remuneration.

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

AUDIT COMMITTEE

The composition, terms of reference and summary of activities of the Audit Committee ("AC") are set out in the "Audit Committee's Report" section of this Annual Report.

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is outsourced to a reputable international accounting/audit firm. The responsibilities of the internal auditors include planning the scope of internal audit and audit schedules in consultation with, but independently of, management, presenting the scope of audit reviews to the AC, conducting audits, submitting the audit reports to the AC on their findings and recommendations on the Group's systems of internal control.

Being an independent function, the audit work is conducted with impartiality, proficiency and due professional care.

Details of the work carried out by the internal auditors in FY2017 are described in the "Audit Committee's Report" and "Statement on Risk Management and Internal Control" sections of this Annual Report.

Details of the AC's oversight of the internal auditors are outlined in the "Summary of the Work of the Committee" section of the "Audit Committee's Report" included in this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

Details of AC's oversight of the financial reporting function are found in the "Summary of the Work of the Committee" section of the "Audit Committee's Report" included in this Annual Report.

Directors' Responsibility for Preparing the Financial Statements

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

In preparing the financial statements, the Directors have:

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

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

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

Risk Management and Internal Control

The Statement on Risk Management and Internal Control included in this Annual Report provides an overview of the main features of the Company's risk management framework and internal control system.

External Auditors

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

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

In FY2017, the AC, in consultation with the Board, had established a questionnaire form setting out the criterions that would be employed to assess the external auditor's suitability and independence. The criterions set out in questionnaire covered areas such as:-

- calibre of external audit firm in terms of standing, international capabilities, technical expertise and knowledge;
- size and expertise of audit team in terms of ability to provide effective audit service;
- audit scope and planning in terms of adequate geographical coverage and significant areas;
- understanding of audit expectations;
- audit communications in terms of availability, quality, candor and timeliness;
- quality processes/performance in terms of independence, quality, efficiency and timeliness of service delivery;
- audit fees in terms of reasonableness and sufficiency; and
- independence and objectivity in terms of performance, limit on engagement term, cooling off period of engagement partner and non-audit services rendered, in absolute terms and/or as a percentage of audit fee.

In FY2017, the AC also relies on the written assurance obtained from the external auditors confirming their independence throughout the conduct of the audit engagement.

Prior to the provision of any engagement of non-audit services by the external auditor, the AC will review and approve the acceptance of such engagements. Non-audit services provided by the external auditors in FY2017 were in respect of the services rendered for the review of the Statement on Risk Management and Internal Control (as required under the MMLR) and the review of the application for utilities tariff.

The AC had reviewed the suitability and independence of Messrs Ernst & Young ("EY") based on the criterions established by the Board and had recommended their re-appointment as external auditors of the Company for the financial year ending 31 July 2018. The Board, having considered the AC's recommendation, was satisfied with the competency, performance and independence of EY and recommended their re-appointment as the Company's external auditors for shareholders' approval at the forthcoming AGM.

COMMUNICATION AND RELATIONSHIP WITH SHAREHOLDERS AND INVESTORS

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

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

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

The Company had implemented poll voting of all resolutions commencing from the AGM held in January 2017.

CORPORATE GOVERNANCE STATEMENT

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

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

This Statement is made in accordance with the resolution of the Board of Directors dated 19 September 2017.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTRODUCTION

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

The Statement gives an outline of the nature and scope of risk management and internal control practices of the Group in respect of the financial year ended 31 July 2017 ("FY 2017").

BOARD'S RESPONSIBILITY

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

The Board acknowledges its responsibility to maintain a sound risk management framework and internal control systems, which includes the establishment of an appropriate risk management and control framework as well as reviewing its effectiveness, adequacy and integrity. However, in view of the inherent limitations in any such system, the Board recognizes that the system of risk management and internal controls is designed to manage and mitigate risks rather than eliminate the risk of failure to achieve the Group's internal control objectives. Accordingly, it can only provide reasonable and not absolute assurance against material financial misstatement or loss.

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

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

RISK MANAGEMENT FRAMEWORK

The Group has in place an Enterprise Risk Management ("ERM") framework which is designed to provide consistency in the management of risks across the Group. The ERM framework is embedded into the corporate culture, processes and structures of the Group.

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

- policies, guidelines, procedures and documentation on strategic, financial, operational, compliance and information technology management;
- an established and structured process for identification, assessment, communication, treatment, monitoring as well as continual review of risks and effectiveness of risk mitigation strategies and controls within the business unit levels for their daily operating activities and processes, aided by self-assessment risk checklist and risk register compassing risk appetite and tolerance assessment;
- Executive Directors and corporate management, meet on quarterly basis, with the business units, to review on the Group's key risks and Group's risk register (which sets out the priority and focus on risk mitigation strategies based on risk categories and ratings), and the execution and management of the risk mitigation strategies;
- continuing assessments by the Group's internal auditors on the quality of risk management and control, and the reports to the Executive Directors and corporate management, and the Audit Committee on the status of specific areas identified for improvement; and
- assessment on the effectiveness of the risk management process in the Group during the financial year by the Executive Directors and subsequently by the Board.

The Group's customer base is concentrated amongst the top-tier semiconductor suppliers. To mitigate such risks, we align our business strategies with these customers' strategic plans. Notwithstanding this, we continue to avail our core competencies and competitive advantages to the markets that we serve.

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that internal control system inevitably is intertwined with the Group's operating activities. The Group's internal control framework is complementary to the ERM framework where internal control policies and procedures are designed to address key business risks, including prevention of asset and data loss. The key internal control structures the Group has in place are described below.

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

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

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

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

REVIEW OF THIS STATEMENT

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

CONCLUSION

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

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

This Statement is made in accordance with the resolution of the Board of Directors dated 19 September 2017.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The directors are pleased to present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 July 2017.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and provision of semiconductor burn-in services.

The principal activities and other details of the subsidiaries are disclosed in Note 12 to the financial statements.

RESULTS

	Group	Company
	RM'000	RM'000
Profit net of tax	43,994	24,307

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

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

DIVIDENDS

	RM'000
In respect of the financial year ended 31 July 2016 as reported in the directors' report of that year:	
Final tax exempt dividend of 3 sen per ordinary share, on 43,014,500 ordinary shares, approved on 4 January 2017 and paid on 26 January 2017	1,290
In respect of the financial year ended 31 July 2017:	
Interim tax exempt dividend of 6.5 sen per ordinary share, on 43,014,500 ordinary shares, approved on 20 July 2017 and paid on 24 August 2017	2,796

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2017, of 6 sen per ordinary share on 43,014,500 ordinary shares amounting to RM2,580,870 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2018.

DIRECTORS

The directors of the Company in office since the beginning of the financial year to the date of this report are:

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS

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

	Number of ordinary shares			
	At 1.8.2016	Acquired	Sold	At 31.7.2017
Deemed interest				
Samuel Lim Syn Soo	20,825,000	–	–	20,825,000

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

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

DIRECTORS' BENEFITS

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

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

INDEMNITY AND INSURANCE FOR THE DIRECTORS AND OFFICERS

During the financial year, there was no indemnity given to or insurance effected for directors and officers of the Company.

OTHER STATUTORY INFORMATION

(a) Before the statements of profit or loss and other comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:

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

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

(b) At the date of this report, the directors are not aware of any circumstances:

  (i) which would render it necessary to write off any bad debts or to make any provision for doubtful debts in respect of the financial statements of the Group and of the Company;

  (ii) which would render the values attributed to current assets in the financial statements of the Group and of the Company misleading;

(iii) 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; and

(iv) 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.

(c) At the date of this report, there does not exist:

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

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

(d) In the opinion of the directors:

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

(ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the operations of the Group or of the Company for the financial year in which this report is made.

AUDITORS

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

Auditors' remuneration are disclosed in Note 8 to the financial statements.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit for an unspecified amount. No payment has been made to indemnify Ernst & Young during or since the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 September 2017.

Samuel Lim Syn Soo | Kenneth Tan Teoh Khoon

STATEMENT BY DIRECTORS

PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Samuel Lim Syn Soo and Kenneth Tan Teoh Khoon, being two of the directors of KESM Industries Berhad, do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 40 to 89 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 July 2017 and of their financial performance and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

The information set out in Note 31 to the financial statements on page 90 have been prepared in accordance with the Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 September 2017.

Samuel Lim Syn Soo

Kenneth Tan Teoh Khoon

STATUTORY DECLARATION

PURSUANT TO SECTION 251(1)(B) OF THE COMPANIES ACT 2016

I, Kenneth Tan Teoh Khoon, being the director primarily responsible for the financial management of KESM Industries Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 40 to 90 are, to the best of my knowledge and belief, correct and I make this solemn declaration by virtue of the provisions of the Statutory Declarations Act, 1960, and subject to the penalties provided by that Act for the making of false statements in statutory declarations, conscientiously believing the statements contained in this declaration to be true in every particular.

Subscribed and solemnly declared by
the abovenamed Kenneth Tan Teoh Khoon
at Kelana Jaya, Selangor on 19 September 2017

Kenneth Tan Teoh Khoon

Before me,
Najmi Dawami Bin Abdul Hamid @ Mohd Akib

INDEPENDENT AUDITORS' REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of KESM Industries Berhad, which comprise the statements of financial position as at 31 July 2017 of the Group and of the Company, and statements of profit or loss and other 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 notes to the financial statements, including a summary of significant accounting policies, as set out on pages 40 to 89.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 July 2017, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities* for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Risk area and rationale	*Our response*
Recognition of deferred tax assets	
As at 31 July 2017, the Group recognised deferred tax assets of RM10,914,000 (2016: RM8,770,000), which mainly relates to unutilised reinvestment allowance and other deductible temporary differences. The Group recognised deferred tax assets to the extent that it is probable that taxable profits will be available in the future to recover these deferred tax assets. The deferred tax assets not recognised as at reporting date were RM13,132,000 and RM1,883,000 in relation to other deductible temporary differences and unutilised reinvestment allowance respectively. The recognition of deferred tax asset is a complex process which involves management exercising judgement and making significant estimates about future taxable profits, including expectation of future sales as well as future overall market and economic conditions. In view of the complexity of estimating the future taxable profits and the significance of the unutilised allowance and other deductible temporary differences, accordingly we have identified this as a key audit matter.	Our audit procedures, amongst others include assessing the management key assumptions and estimates in their computation of future taxable profits, such as revenue growth, production cost and expenses by comparing them to historical data, taking into consideration of events and circumstances that occurred during the financial year and management's assumption on the timing of utilisation of these allowances and other deductible temporary differences in the respective entities. We also reviewed the adequacy of the Group's disclosures on deferred tax assets in Note 19 to the financial statements.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company for the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITORS' REPORT

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiary of which we have not acted as auditors, are disclosed in Note 12 to the financial statements.

OTHER REPORTING RESPONSIBILITIES

The supplementary information set out in Note 31 on page 90 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young
AF: 0039
Chartered Accountants

Sundralingam A/L Navaratnam
No. 2984/05/18 (J)
Chartered Accountant

Kuala Lumpur, Malaysia
19 September 2017

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 July 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Revenue	4	337,988	285,734	72,346	64,703
Other items of income					
Interest income	5	2,505	2,541	1,723	1,419
Dividend income		141	134	17,141	134
Other income		1,580	1,280	5,630	2,537
Items of expense					
Raw materials and consumables used		(33,644)	(31,623)	(1,710)	(831)
Changes in work-in-progress and finished goods		119	628	–	–
Employee benefits expense	6	(112,927)	(98,814)	(38,456)	(30,975)
Depreciation of property, plant and equipment	11	(66,704)	(55,214)	(6,051)	(6,087)
Finance costs	7	(2,440)	(3,039)	(124)	(34)
Other expenses		(78,775)	(65,388)	(24,000)	(23,064)
Profit before tax	8	47,843	36,239	26,499	7,802
Income tax expense	9	(3,849)	(5,556)	(2,192)	(1,580)
Profit net of tax		43,994	30,683	24,307	6,222
Other comprehensive income:					
Item that will not be reclassified to profit or loss					
Remeasurement loss arising from defined benefit obligations, net of tax		(44)	–	–	–
Item to be reclassified subsequently to profit or loss					
Foreign currency translation gain/(loss)		2,557	(1,205)	–	–
Other comprehensive income for the year, net of tax		2,513	(1,205)	–	–
Total comprehensive income for the year		46,507	29,478	24,307	6,222
Earnings per share attributable to owners of the Company					
– Basic	10	102.3 sen	71.3 sen		

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

STATEMENTS OF FINANCIAL POSITION
As at 31 July 2017

	Note	Group		Company	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Assets					
Non-current assets					
Property, plant and equipment	11	242,873	169,770	24,424	17,684
Investment in subsidiaries	12	–	–	79,250	79,250
Deferred tax assets	19	786	602	596	412
		243,659	170,372	104,270	97,346
Current assets					
Inventories	13	7,151	8,527	74	114
Trade and other receivables	14	82,680	70,421	40,197	20,456
Prepayments		6,718	5,452	2,414	2,349
Tax recoverable		437	–	–	–
Investment securities held for trading		8,046	4,184	8,046	4,184
Cash and short-term deposits	15	127,576	112,748	55,523	56,614
		232,608	201,332	106,254	83,717
Total assets		476,267	371,704	210,524	181,063
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	16	43,678	43,015	43,678	43,015
Reserves	17	285,461	243,703	144,620	125,062
Total equity		329,139	286,718	188,298	168,077
Non-current liabilities					
Loans and borrowings	18	37,604	9,874	951	287
Defined benefit obligations	21	3,038	2,687	–	–
		40,642	12,561	951	287
Current liabilities					
Trade and other payables	20	74,586	42,543	19,493	12,451
Loans and borrowings	18	31,875	29,495	1,774	203
Income tax payable		25	387	8	45
		106,486	72,425	21,275	12,699
Total liabilities		147,128	84,986	22,226	12,986
Total equity and liabilities		476,267	371,704	210,524	181,063

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

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 July 2017

Group	Equity, total RM'000	Equity attributable to owners of the Company, total RM'000	Share capital (Note 16) RM'000	Share premium (Note 17) RM'000	Retained earnings (Note 17) RM'000	Other reserves, total RM'000	Foreign currency translation reserve (Note 17) RM'000	Capital reserve (Note 17) RM'000	Statutory reserve fund (Note 17) RM'000
		Attributable to owners of the Company							
			Non-distributable		Distributable		Non-distributable		
At 1 August 2015	260,466	260,466	43,015	663	198,933	17,855	11,736	2,240	3,879
Profit for the financial year	30,683	30,683	–	–	30,683	–	–	–	–
Other comprehensive income for the financial year, net of tax	(1,205)	(1,205)	–	–	–	(1,205)	(1,205)	–	–
Total comprehensive income	29,478	29,478	–	–	30,683	(1,205)	(1,205)	–	–
Transactions with owners									
Transfer to statutory reserve fund	–	–	–	–	(750)	750	–	–	750
Dividends (Note 28)	(3,226)	(3,226)	–	–	(3,226)	–	–	–	–
Total transactions with owners	(3,226)	(3,226)	–	–	(3,976)	750	–	–	750
At 31 July 2016	286,718	286,718	43,015	663	225,640	17,400	10,531	2,240	4,629
Profit for the financial year	43,994	43,994	–	–	43,994	–	–	–	–
Other comprehensive income for the financial year, net of tax	2,513	2,513	–	–	(44)	2,557	2,557	–	–
Total comprehensive income	46,507	46,507	–	–	43,950	2,557	2,557	–	–
Transactions with owners									
Upon abolition of par value (Note 16)	–	–	663	(663)	–	–	–	–	–
Dividends (Note 28)	(4,086)	(4,086)	–	–	(4,086)	–	–	–	–
Total transactions with owners	(4,086)	(4,086)	663	(663)	(4,086)	–	–	–	–
At 31 July 2017	329,139	329,139	43,678	–	265,504	19,957	13,088	2,240	4,629

STATEMENTS OF CHANGES IN EQUITY

For the financial year ended 31 July 2017

Company	Equity, total RM'000	Non-distributable		Distributable	Non-distributable	
		Share capital (Note 16) RM'000	Share premium (Note 17) RM'000	Retained earnings (Note 17) RM'000	Other reserve, total RM'000	Merger relief reserve (Note 17) RM'000
At 1 August 2015	165,081	43,015	663	120,188	1,215	1,215
Total comprehensive income	6,222	–	–	6,222	–	–
Transaction with owners						
Dividends (Note 28)	(3,226)	–	–	(3,226)	–	–
At 31 July 2016	168,077	43,015	663	123,184	1,215	1,215
Total comprehensive income	24,307	–	–	24,307	–	–
Transaction with owners						
Upon abolition of par value (Note 16)	–	663	(663)	–	–	–
Dividends (Note 28)	(4,086)	–	–	(4,086)	–	–
At 31 July 2017	188,298	43,678	–	143,405	1,215	1,215

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

STATEMENTS OF CASH FLOWS

For the financial year ended 31 July 2017

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Operating activities				
Profit before tax	47,843	36,239	26,499	7,802
Adjustments for:				
Depreciation of property, plant and equipment	66,704	55,214	6,051	6,087
Gain on disposal of property, plant and equipment	(236)	(506)	(1,831)	(343)
Gain on disposal of investment securities held for trading	(47)	–	(47)	–
Plant and equipment written off	7	15	7	1
Net fair value gain on investment securities held for trading	(914)	(125)	(914)	(125)
Unrealised exchange loss/(gain)	128	1,031	28	(6)
(Write-back)/write-down of inventories	(104)	30	–	–
Dividend income	(141)	(134)	(17,141)	(134)
Interest income	(2,505)	(2,541)	(1,723)	(1,419)
Finance costs	2,440	3,039	124	34
Operating cash flows before working capital changes	113,175	92,262	11,053	11,897
Changes in working capital:				
Decrease in inventories	1,480	1,532	40	10
(Increase)/decrease in prepayments and receivables	(12,251)	(4,938)	(2,806)	3,286
Increase in payables	3,495	3,424	5,452	2,927
Cash flows generated from operations	105,899	92,280	13,739	18,120
Income taxes paid	(4,832)	(3,618)	(2,413)	(1,674)
Interest paid	(2,398)	(3,019)	(124)	(34)
Interest received	2,505	2,541	1,723	1,419
Net cash flows generated from operating activities	101,174	88,184	12,925	17,831
Investing activities				
Increase in short-term deposits with maturity more than three months	(45,135)	(1,000)	(35,070)	–
Purchase of investment securities held for trading	(3,787)	–	(3,787)	–
Proceeds from disposal of investment securities held for trading	886	–	886	–
Dividend income	141	134	141	134
Purchase of property, plant and equipment	(107,140)	(29,622)	(9,372)	(4,619)
Proceeds from disposal of property, plant and equipment	1,923	523	2,351	344
Net cash flows used in investing activities	(153,112)	(29,965)	(44,851)	(4,141)
Financing activities				
Repayment of obligations under finance leases	(2,475)	(1,350)	(1,006)	(243)
Repayment of bank loans	(35,988)	(39,756)	–	(2,693)
Proceeds from bank loans	63,370	3,067	–	–
Dividends paid on ordinary shares	(3,226)	(1,290)	(3,226)	(1,290)
Net cash flows generated from/(used in) financing activities	21,681	(39,329)	(4,232)	(4,226)
Net (decrease)/increase in cash and cash equivalents	(30,257)	18,890	(36,158)	9,464
Effects of exchange rate changes	(50)	(1,066)	(3)	–
Cash and cash equivalents at beginning of the year	111,748	93,924	56,614	47,150
Cash and cash equivalents at end of the year (Note 15)	81,441	111,748	20,453	56,614

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

1. CORPORATE INFORMATION

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

The principal activities of the Company are investment holding and provision of semiconductor burn-in services. There have been no significant changes in the nature of these activities during the year. The principal activities and other details of the subsidiaries are disclosed in Note 12 to the financial statements.

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

Following the adoption of MFRS 10 Consolidated Financial Statements and MFRS 127 Separate Financial Statements, the Company and its subsidiaries are considered to be *de facto* subsidiaries of Sunright Limited ("Sunright"). In this connection, the ultimate holding company of the Company is Sunright, which is incorporated in Singapore. Sunright is listed on the Main Board of the Singapore Exchange Securities Trading Limited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

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

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

2.2 Changes in accounting policies

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

On 1 August 2016, the Group and the Company adopted the following new and amended MFRS and IC Interpretations mandatory for annual financial periods beginning on or after 1 January 2016.

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRSs 2012-2014 Cycle	1 January 2016
Amendments to MFRS 116 and 138: Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
Amendments to MFRS 11: Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Amendments to MFRS 127: Equity Method in Separate Financial Statements	1 January 2016
Amendments to MFRS 101: Disclosure Initiatives	1 January 2016
Amendments to MFRS 10, 12 and 128: Investment Entities: Applying the Consolidation Exception	1 January 2016
MFRS 14: Regulatory Deferral Accounts	1 January 2016

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Standards issued but not yet effective

The Group has not adopted the following standards that have been issued but not yet effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 12: Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2017
Amendments to MFRS 107: Disclosure Initiatives	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to MFRS 1: Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4 Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts	1 January 2018
Amendments to MFRS 128: Annual Improvements to MFRS Standards 2014-2016 Cycle	1 January 2018
Amendments to MFRS 140: Transfers of Investment property	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
IC Interpretation 22: Foreign Currency Translations and Advance Consideration	1 January 2018
MFRS 16: Leases	1 January 2019
Amendments to MFRS 10 and 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

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

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of MFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of MFRS 15 and plans to adopt the new standard on the required effective date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement Contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

2.4 Basis of consolidation and business combinations

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied for like transactions and events in similar circumstances. A list of the Company's subsidiaries is shown in Note 12.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership of a subsidiary without a loss of control, is accounted for as an equity transaction.

The carrying amount of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interests and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 Basis of consolidation and business combinations (cont'd)

(ii) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss.

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

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.5 Functional and foreign currency

The consolidated financial statements are presented in RM, which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Functional and foreign currency (cont'd)

(ii) Foreign operations

For consolidation purposes, the assets and liabilities of foreign operations are translated into RM at the rate of exchange ruling at the reporting date and income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, all items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

-	Buildings	20 years
-	Leasehold land	60 - 99 years
-	Renovation	5 years
-	Plant, machinery and test equipment	2 - 5 years
-	Motor vehicles	5 years
-	Office equipment, furniture and fittings and computers	3 - 10 years

Freehold land has an unlimited useful life and therefore is not depreciated.

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

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

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

2.7 Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Impairment of non-financial assets (cont'd)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.8 Subsidiaries

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

(i) power over the investee (such as existing rights that give it the current ability to direct the relevant activities of the investee);

(ii) exposure, or rights, to variable returns from its involvement with the investee; and

(iii) the ability to use its power over the investee to affect its returns.

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

2.9 Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

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

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 trades) are recognised on the trade date, i.e the date that the Group commits to purchase or sell the assets.

Subsequent measurement

The subsequent measurement of financial assets depend on their classification as follows:

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

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets held for trading comprises investment securities, derivatives, and financial assets acquired principally for the purpose of selling or repurchasing them in the near term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Financial instruments (cont'd)

(i) Financial assets (cont'd)

Subsequent measurement (cont'd)

(a) Financial assets at fair value through profit or loss (cont'd)

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less impairment. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

This category generally applies to trade and other receivables, and cash and short-term deposits. Loans and receivables are classified as current assets, except for those having maturity date later than 12 months after the reporting date which are classified as non-current.

Derecognition

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

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling or repurchasing them in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Financial instruments (cont'd)

(ii) Financial liabilities (cont'd)

Subsequent measurement (cont'd)

(b) Financial liabilities at amortised cost

After initial recognition, other financial liabilities, including loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains or losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

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

2.10 Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss.

Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

When the financial asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account is written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtors, certainty of customers' orders and default or significant delay in payments.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and deposits with banks, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value, with a maturity of three months or less. These also include bank overdrafts that form an integral part of the Group's cash management. For the purpose of the statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and pledged deposits, if any.

2.13 Inventories

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

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

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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

2.14 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 resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are renewed 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.

2.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.16 Employee benefits

(i) Short-term benefits

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

(ii) Defined contribution plans

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

(iii) Defined benefit obligations

The Group's obligations under the defined benefit retirement benefit plan are estimated and determined based on the amount of benefit that eligible employees have earned in return for their service in the current and prior years. That benefit is discounted using the projected unit credit method in order to determine its present value. The discount rate is the market yield at the reporting date on high quality corporate bonds or government bonds. The amount recognised in the statement of financial position represents the present value of the defined benefit obligations.

Net interest is calculated by applying the discount rate to the net defined benefit liability. The Group recognises the service costs in the net defined benefit obligations under 'employee benefits expense' and net interest under 'finance costs' in profit or loss.

2.17 Leases

(i) Finance lease - as lessee

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

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

(ii) Operating lease - as lessee

Leases where the lessor retains substantially all the risks and ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.17 Leases (cont'd)

(iii) Operating lease - as lessor

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

2.18 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

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

Revenue is recognised upon passage of ownership to the customer which generally coincides with the delivery, or the rendering of service to the customer.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Dividend income

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

(iv) Rental income

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

2.19 Taxes

(i) Current income tax

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

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Taxes (cont'd)

(ii) Deferred tax (cont'd)

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

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

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

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

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

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

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

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

(iii) Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax (including goods and services tax) except:

- where sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Taxes (cont'd)

(iii) Sales tax (cont'd)

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.20 Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to manage its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.21 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.22 Segment reporting

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

2.23 Contingencies

A contingent liability is:

(i) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(ii) a present obligation that arises from past events but is not recognised because:

   (a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

   (b) the amount of the obligation cannot be measured with sufficient reliability.

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

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.24 Current versus non-current classification

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

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

All other assets, including deferred tax assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities, including deferred tax liabilities as non-current.

2.25 Fair value measurements

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

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.25 Fair value measurements (cont'd)

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Judgements made in applying accounting policies

There are no significant judgements made by management in the application of accounting policies of the Group that have a significant effect on the financial statements.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date are discussed below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

The cost of plant, machinery and test equipment is depreciated on a straight-line basis over the assets' estimated economic useful lives. Management estimates the useful lives of these plant, machinery and test equipment to be within 2 to 5 years. These are common life expectancies applied in the semiconductor industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised. The carrying amount of the Group's plant and equipment at the reporting date is disclosed in Note 11.

(ii) Deferred tax assets

Deferred tax assets are recognised for unutilised reinvestment allowance and other deductible temporary differences to the extent that it is probable that taxable profit will be available in the future to recover these deferred tax assets. Significant management judgement and estimation are required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, including expectations for future sales as well as future overall market and economic conditions. The carrying amount of the Group's deferred tax assets at reporting date was RM786,000 (2016: RM602,000). Further details are disclosed in Note 19.

4. REVENUE

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

5. INTEREST INCOME

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest income from:				
– Deposits with licensed banks	2,498	2,541	1,504	1,419
– Loans to a subsidiary	–	–	212	–
– Others	7	–	7	–
	2,505	2,541	1,723	1,419

6. EMPLOYEE BENEFITS EXPENSE

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Wages, salaries and bonuses		95,821	81,350	34,987	28,590
Contributions to defined contribution plans		2,852	2,721	952	907
Social security contributions		6,660	6,133	126	106
Defined benefit obligations	21	265	2,667	–	–
Other benefits		7,329	5,943	2,391	1,372
		112,927	98,814	38,456	30,975

The above employee benefits expense includes directors' remuneration, which is disclosed in Note 8.

7. FINANCE COSTS

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Interest expense on:					
– Bank loans		2,053	2,892	–	11
– Obligations under finance leases		345	127	124	23
– Defined benefit obligations	21	42	20	–	–
		2,440	3,039	124	34

8. PROFIT BEFORE TAX

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Profit before tax is arrived at:				
After charging:				
Auditors' remunerations				
– statutory audit	358	359	120	117
– non-audit services	5	11	5	11
Directors' remuneration	2,537	2,436	1,517	1,446
Rental of factory	2,338	2,372	1,439	1,424
Utilities	28,656	26,788	8,694	9,295
Repairs and maintenance	24,788	17,080	5,463	3,735
Write-down of inventories	–	30	–	–
Plant and equipment written off	7	15	7	1
Net foreign exchange loss	260	–	–	–
and crediting:				
Gain on disposal of property, plant and equipment	236	506	1,831	343
Gain on disposal of investment securities held for trading	47	–	47	–
Write-back of inventories	104	–	–	–
Net fair value gain on investment securities held for trading	914	125	914	125
Rental income from premises	–	–	1,382	1,378
Net foreign exchange gain	–	4	679	537

Information on directors' remuneration is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Directors' remuneration				
In respect of the Company's directors:				
Executive:				
– Fees	1,103	1,061	103	91
– Salaries and other emoluments	1,224	1,165	1,224	1,165
	2,327	2,226	1,327	1,256
Non-executive:				
– Fees	183	183	163	163
– Allowances	27	27	27	27
	210	210	190	190
Total directors' remuneration	2,537	2,436	1,517	1,446

8. PROFIT BEFORE TAX (CONT'D)

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

	Group	
	Number of directors	
	2017	2016
Executive directors:		
RM600,001 to RM650,000	–	1
RM650,001 to RM1,000,000	1	–
RM1,550,001 to RM1,600,000	–	1
RM1,650,001 to RM1,700,000	1	–
Non-executive directors:		
RM50,001 to RM100,000	3	3

9. INCOME TAX EXPENSE

(i) Major components of income tax expense

The major components of income tax expense for the years ended 31 July 2017 and 2016 are:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current income tax:				
– Malaysian income tax	3,924	3,592	2,100	1,338
– Under provision in respect of prior years	109	29	276	34
	4,033	3,621	2,376	1,372
Deferred tax (Note 19):				
– Origination and reversal of temporary differences	(203)	1,968	(203)	142
– Under/(over) provision in prior years	19	(33)	19	66
	(184)	1,935	(184)	208
Income tax expense recognised in profit or loss	3,849	5,556	2,192	1,580

9. INCOME TAX EXPENSE (CONT'D)

(ii) Relationship between tax expense and accounting profit

The reconciliation between tax expense and product of accounting profit multiplied by the applicable corporate tax rate for the years ended 31 July 2017 and 2016 is as follows:

	Group	
	2017 RM'000	2016 RM'000
Profit before tax	47,843	36,239
Tax at Malaysian statutory tax rate of 24% (2016: 24%)	11,482	8,697
Adjustments:		
Effect of different tax rate on foreign income	62	39
Income not subject to tax	(205)	(62)
Non-deductible expenses	591	329
Utilisation of previously unrecognised tax benefits	(2,900)	(3,088)
Deferred tax asset recognised on reinvestment allowance	(5,519)	(1,457)
Deferred tax asset not recognised on other deductible temporary differences and unutilised business losses	210	1,102
Under provision of income tax expense in prior years	109	29
Under/(over) provision of deferred tax in prior years	19	(33)
Income tax expense recognised in profit or loss	3,849	5,556

	Company	
	2017 RM'000	2016 RM'000
Profit before tax	26,499	7,802
Tax at Malaysian statutory tax rate of 24% (2016: 24%)	6,360	1,872
Adjustments:		
Income not subject to tax	(4,727)	(62)
Non-deductible expenses	264	226
Utilisation of previously unrecognised reinvestment allowance	–	(556)
Under provision of income tax expense in prior years	276	34
Under provision of deferred tax in prior years	19	66
Income tax expense recognised in profit or loss	2,192	1,580

Domestic current income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the year.

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

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

9. INCOME TAX EXPENSE (CONT'D)

(ii) Relationship between tax expense and accounting profit (cont'd)

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

	Group	
	2017 RM'000	2016 RM'000
Reinvestment allowance	38,281	54,256
Business losses	1,142	5,013

10. EARNINGS PER SHARE

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

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

	Group	
	2017 RM'000	2016 RM'000
Profit attributable to owners of the Company	43,994	30,683
	Number '000	Number '000
Weighted average number of ordinary shares for basic earnings per share calculation	43,015	43,015
Basic earnings per share	102.3 sen	71.3 sen

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

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

11. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation* RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers* RM'000	Total RM'000
At 31 July 2017								
At Cost								
At 1 August 2016	21,525	1,111	5,089	26,909	653,372	1,613	9,897	719,516
Additions	–	–	–	4,773	133,502	528	1,422	140,225
Disposals	–	–	–	–	(3,799)	(400)	(2)	(4,201)
Write off	–	–	–	(8)	(5,276)	–	(172)	(5,456)
Exchange differences	–	–	–	1,258	8,120	5	167	9,550
At 31 July 2017	21,525	1,111	5,089	32,932	785,919	1,746	11,312	859,634
Accumulated depreciation								
At 1 August 2016	15,478	–	1,504	19,041	504,120	1,205	8,398	549,746
Depreciation charge for the year	2,125	–	84	2,842	60,804	194	655	66,704
Disposals	–	–	–	–	(2,119)	(394)	(1)	(2,514)
Write off	–	–	–	(8)	(5,273)	–	(168)	(5,449)
Exchange differences	–	–	–	895	7,246	5	128	8,274
At 31 July 2017	17,603	–	1,588	22,770	564,778	1,010	9,012	616,761
Net carrying amount	3,922	1,111	3,501	10,162	221,141	736	2,300	242,873
At 31 July 2016								
At Cost								
At 1 August 2015	21,525	1,111	5,089	25,461	645,765	1,584	9,970	710,505
Additions	–	–	–	2,246	38,902	376	600	42,124
Disposals	–	–	–	(149)	(15,484)	(345)	(500)	(16,478)
Write off	–	–	–	(145)	(12,436)	–	(100)	(12,681)
Exchange differences	–	–	–	(504)	(3,375)	(2)	(73)	(3,954)
At 31 July 2016	21,525	1,111	5,089	26,909	653,372	1,613	9,897	719,516
Accumulated depreciation								
At 1 August 2015	13,353	–	1,407	16,942	486,099	1,366	8,307	527,474
Depreciation charge for the year	2,125	–	97	2,848	49,217	186	741	55,214
Disposals	–	–	–	(149)	(15,481)	(345)	(486)	(16,461)
Write off	–	–	–	(145)	(12,423)	–	(98)	(12,666)
Exchange differences	–	–	–	(455)	(3,292)	(2)	(66)	(3,815)
At 31 July 2016	15,478	–	1,504	19,041	504,120	1,205	8,398	549,746
Net carrying amount	6,047	1,111	3,585	7,868	149,252	408	1,499	169,770

* Included in the net carrying amounts of the Group's renovation, plant, machinery and test equipment, and office equipment, furniture and fittings and computers of RM3,409,000 (2016: RM1,384,000), RM31,723,000 (2016: RM5,486,000) and RM278,000 (2016: RM25,000) respectively, were not depreciated as they were not ready for use.

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Buildings RM'000	Freehold land RM'000	Leasehold land RM'000	Renovation RM'000	Plant, machinery and test equipment* RM'000	Motor vehicles RM'000	Office equipment, furniture and fittings and computers* RM'000	Total RM'000
At 31 July 2017								
At Cost								
At 1 August 2016	10,035	1,111	2,389	1,783	111,130	791	3,657	130,896
Additions	–	–	–	182	12,024	528	584	13,318
Disposals	–	–	–	–	(2,633)	(400)	–	(3,033)
Write off	–	–	–	–	(490)	–	(64)	(554)
At 31 July 2017	10,035	1,111	2,389	1,965	120,031	919	4,177	140,627
Accumulated depreciation								
At 1 August 2016	7,123	–	733	1,438	100,011	671	3,236	113,212
Depreciation charge for the year	971	–	20	107	4,586	131	236	6,051
Disposals	–	–	–	–	(2,119)	(394)	–	(2,513)
Write off	–	–	–	–	(487)	–	(60)	(547)
At 31 July 2017	8,094	–	753	1,545	101,991	408	3,412	116,203
Net carrying amount	1,941	1,111	1,636	420	18,040	511	765	24,424
At 31 July 2016								
At Cost								
At 1 August 2015	10,035	1,111	2,389	1,458	110,898	731	3,582	130,204
Additions	–	–	–	325	5,403	60	183	5,971
Disposals	–	–	–	–	(768)	–	(108)	(876)
Write off	–	–	–	–	(4,403)	–	–	(4,403)
At 31 July 2016	10,035	1,111	2,389	1,783	111,130	791	3,657	130,896
Accumulated depreciation								
At 1 August 2015	6,152	–	700	1,366	100,634	531	3,019	112,402
Depreciation charge for the year	971	–	33	72	4,547	140	324	6,087
Disposals	–	–	–	–	(768)	–	(107)	(875)
Write off	–	–	–	–	(4,402)	–	–	(4,402)
At 31 July 2016	7,123	–	733	1,438	100,011	671	3,236	113,212
Net carrying amount	2,912	1,111	1,656	345	11,119	120	421	17,684

* Included in the net carrying amount of the Company's plant, machinery and test equipment, and office equipment, furniture and fittings and computers of RM1,780,000 (2016: RM793,000) and RM208,000 (2016: RM8,000) respectively, were not depreciated as they were not ready for use.

11. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

(i) Assets held under finance leases

The carrying amount of plant and equipment held under finance leases:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Plant, machinery and test equipment	6,105	2,840	2,609	452
Motor vehicles	659	243	468	–
	6,764	3,083	3,077	452

Leased assets are pledged as security for the related finance lease liabilities, as disclosed in Note 18.

(ii) Assets acquisition

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

		Group		Company	
	Note	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Cash payments		107,140	29,622	9,372	4,619
Finance leases		5,203	4,050	3,241	608
Other payables	20	27,882	8,452	705	744
		140,225	42,124	13,318	5,971

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2017 RM'000	2016 RM'000
Unquoted shares, at costs	79,250	79,250

Composition of the Group

The Company has the following investment in subsidiaries:

Name of Company	Country of incorporation	Principal activities	Proportion of ownership interest 2017 %	Proportion of ownership interest 2016 %
KESP Sdn. Bhd.*	Malaysia	Provision of semiconductor burn-in services and electronic manufacturing services	100	100
KESM Test (M) Sdn. Bhd.*	Malaysia	Provision of semiconductor testing services	100	100
KESM Industries (Tianjin) Co., Ltd.^	China	Provision of semiconductor burn-in and testing services	100	100

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

13. INVENTORIES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At cost				
Raw materials	2,286	2,687	–	–
Consumables	1,953	3,048	74	114
Work-in-progress	1,847	1,603	–	–
Finished goods	1,065	1,189	–	–
	7,151	8,527	74	114

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current				
Trade receivables				
Third parties	80,284	67,104	20,733	17,174
Amounts due from related companies	386	1,410	–	–
	80,670	68,514	20,733	17,174
Other receivables				
Refundable deposits	1,056	965	460	458
Sundry receivables	952	942	483	90
Amounts due from subsidiaries	–	–	18,521	2,734
Amounts due from related companies	2	–	–	–
	2,010	1,907	19,464	3,282
Total trade and other receivables	82,680	70,421	40,197	20,456
Add: Cash and short-term deposits (Note 15)	127,576	112,748	55,523	56,614
Total loans and receivables	210,256	183,169	95,720	77,070

(i) Trade receivables

Trade receivables, including amounts due from related companies are non-interest bearing and are generally on 30 to 90 days (2016: 30 to 90 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The Group's exposure to significant concentration of credit risk is as disclosed in Note 25(iv).

14. TRADE AND OTHER RECEIVABLES (CONT'D)

(i) Trade receivables (cont'd)

Ageing analysis of trade receivables

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Neither past due nor impaired	77,873	66,595	19,543	17,119
Past due not impaired				
– 1 to 30 days	1,934	1,743	998	51
– 31 to 60 days	213	77	143	3
– 61 to 90 days	81	84	49	–
– 91 to 120 days	28	–	–	1
– More than 121 days	541	15	–	–
	2,797	1,919	1,190	55
	80,670	68,514	20,733	17,174

Receivables that are neither past due nor impaired

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

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

Receivables that are past due but not impaired

The Group's and the Company's trade receivables which are past due but not impaired, amounting to RM2,797,000 (2016: RM1,919,000) and RM1,190,000 (2016: RM55,000) respectively, and are unsecured.

These amounts have been assessed as collectible as they are due from customers which are still in active trade with the Group and the Company.

14. TRADE AND OTHER RECEIVABLES (CONT'D)

(i) Trade receivables (cont'd)

Receivables that are impaired

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

	Group	
	2017 RM'000	2016 RM'000
Trade receivables (gross)	–	–
Less: Allowance for impairment	–	–
	–	–
Movement in allowance account:		
At beginning of the financial year	–	7,961
Written off	–	(8,352)
Exchange difference	–	391
At end of the financial year	–	–

Trade receivables that were individually determined to be impaired in the previous financial year mainly related to a debtor who had defaulted on payments. These receivables were not secured by any collateral or credit enhancements.

(ii) Related company receivables

Amounts due from subsidiaries are non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

Amounts due from related companies are non-trade in nature, unsecured, non-interest bearing and repayable on demand. Related companies refer to its holding company, Sunright Limited and its subsidiaries.

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
United States Dollar ("USD")	5,819	7,891	7	3,178
Ringgit Malaysia ("RM")	56,587	44,909	40,190	17,278
Renminbi ("RMB")	20,274	17,621	–	–
	82,680	70,421	40,197	20,456

15. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Deposits with licensed banks	84,906	86,714	52,098	50,963
Cash at banks and on hand	42,670	26,034	3,425	5,651
	127,576	112,748	55,523	56,614
Less: short-term deposits with maturity more than three months	(46,135)	(1,000)	(35,070)	–
Cash and cash equivalents	81,441	111,748	20,453	56,614

Cash and short-term deposits are denominated in the following currencies:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
USD	13,894	7,251	840	3,662
RM	92,518	93,544	54,683	52,952
RMB	21,164	11,953	–	–
	127,576	112,748	55,523	56,614

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits, other than those with maturity more than three months, are made for varying periods of between five days and three months (2016: between seven days and three months), depending on the immediate cash requirements of the Group and of the Company, and earn interests at the respective short-term deposit rates. The weighted average effective interest rates of short-term deposits as at 31 July 2017 for the Group and the Company were 3.4% (2016: 3.0%) and 3.6% (2016: 2.9%) respectively.

Cash at banks of RM21,164,000 (2016: RM11,953,000) held in People's Republic of China ("PRC") are subject to local exchange control restrictions. These regulations place restriction on the amount of currency being exported other than through dividends and trade-related transactions.

16. SHARE CAPITAL

	Group/Company			
	Number of ordinary shares		Amount	
	2017 '000	2016 '000	2017 RM'000	2016 RM'000
Authorised share capital:				
At beginning/end of the financial year	–	50,000	–	50,000
Issued and fully paid:				
At beginning of the financial year	43,015	43,015	43,015	43,015
Transfer from share premium	–	–	663	–
At end of the financial year	43,015	43,015	43,678	43,015

On 31 January 2017, in accordance with the Companies Act 2016 in Malaysia, the concepts of "par value" and "authorised share capital" were abolished and on that date, the shares of the Company ceased to have a par value. Consequently, the amounts standing in the share premium had become part of the Company's share capital.

16. SHARE CAPITAL (CONT'D)

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

17. RESERVES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Distributable:				
Retained earnings	265,504	225,640	143,405	123,184
Non-distributable:				
Share premium	–	663	–	663
Statutory reserve fund	4,629	4,629	–	–
Merger relief reserve	–	–	1,215	1,215
Capital reserve	2,240	2,240	–	–
Foreign currency translation reserve	13,088	10,531	–	–
	285,461	243,703	144,620	125,062

(i) Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 July 2017 under the single tier system.

As at reporting date, the Company has credit in the tax exempt account to distribute tax exempt dividends of approximately RM112,912,000 (2016: RM95,862,000).

(ii) Foreign currency translation reserve

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

(iii) Statutory reserve fund

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

(iv) Merger relief reserve

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

(v) Capital reserve

Capital reserve represents the shares of subsidiaries received by the Company arising from bonus issue.

18. LOANS AND BORROWINGS

	Maturities	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
Current					
Obligations under finance leases (Note 23)					
– secured	2018	3,983	1,483	1,774	203
Bank loans	2018	27,892	28,012	–	–
		31,875	29,495	1,774	203
Non-current					
Obligations under finance leases (Note 23)					
– secured	2020	2,102	1,874	951	287
Bank loans	2019 - 2020	35,502	8,000	–	–
		37,604	9,874	951	287
Total loans and borrowings					
Obligations under finance leases (Note 23)					
– secured		6,085	3,357	2,725	490
Bank loans		63,394	36,012	–	–
		69,479	39,369	2,725	490
The remaining maturities of the loans and borrowings as at 31 July are as follows:					
Within one year		31,875	29,495	1,774	203
After one year but not more than five years		37,604	9,874	951	287
		69,479	39,369	2,725	490

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

	Group 2017 RM'000	Group 2016 RM'000	Company 2017 RM'000	Company 2016 RM'000
RMB	5,026	–	–	–
RM	64,453	39,369	2,725	490
	69,479	39,369	2,725	490

The bank loans bore interests between 4.77% and 5.94% (2016: between 4.77% and 5.08%) per annum during the financial year.

The Group and the Company have finance leases for certain assets (Note 11). Obligations under finance leases of RM6,085,000 (2016: RM3,357,000) and RM2,725,000 (2016: RM490,000) of the Group and of the Company respectively and secured by a charge over the leased assets.

18. LOANS AND BORROWINGS (CONT'D)

At reporting date, the finance leases of the Group and of the Company bore effective interests between 5.41% and 6.60% (2016: between 6.09% and 6.60%), and 5.41% and 6.57% (2016: 6.60%) per annum respectively.

Term loans of RM5,026,000 (2016: Nil) for the Group are secured by corporate guarantee provided by the Company.

19. DEFERRED TAX (ASSETS)/LIABILITIES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
At beginning of the financial year	(602)	(2,537)	(412)	(620)
Recognised in profit or loss (Note 9)	(184)	1,935	(184)	208
At end of the financial year	(786)	(602)	(596)	(412)
Presented after appropriate offsetting as follows:				
Deferred tax assets	(10,914)	(8,770)	(1,047)	(509)
Deferred tax liabilities	10,128	8,168	451	97
	(786)	(602)	(596)	(412)

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

Deferred tax liabilities of the Group

	Property, plant and equipment RM'000	Others RM'000	Total RM'000
At 1 August 2015	10,141	4	10,145
Recognised in profit or loss	(1,973)	(4)	(1,977)
At 31 July 2016	8,168	–	8,168
Recognised in profit or loss	1,949	11	1,960
At 31 July 2017	10,117	11	10,128

Deferred tax assets of the Group

	Property, plant and equipment RM'000	Unutilised reinvestment allowances RM'000	Others RM'000	Total RM'000
At 1 August 2015	(1,943)	(8,865)	(1,874)	(12,682)
Recognised in profit or loss	938	3,347	(373)	3,912
At 31 July 2016	(1,005)	(5,518)	(2,247)	(8,770)
Recognised in profit or loss	815	(1,786)	(1,173)	(2,144)
At 31 July 2017	(190)	(7,304)	(3,420)	(10,914)

19. DEFERRED TAX (ASSETS)/LIABILITIES (CONT'D)

Deferred tax liabilities of the Company

	Property, plant and equipment RM'000
At 1 August 2015	(41)
Recognised in profit or loss	138
At 31 July 2016	97
Recognised in profit or loss	354
At 31 July 2017	451

Deferred tax assets of the Company

	Others RM'000
At 1 August 2015	(579)
Recognised in profit or loss	70
At 31 July 2016	(509)
Recognised in profit or loss	(538)
At 31 July 2017	(1,047)

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

	Group	
	2017 RM'000	2016 RM'000
Unutilised reinvestment allowance	7,847	31,302
Unutilised business losses	1,142	5,013
Other deductible temporary differences	51,490	58,065
Total deferred tax asset not recognised	60,479	94,380
Deferred tax, if recognised	15,015	23,224

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

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Current				
Trade payables				
Third parties	3,940	4,587	–	–
Amounts due to related companies	1,155	5	1,031	5
Amounts due to a subsidiary	–	–	1,144	–
Other payables				
Accrued operating expenses	20,083	13,853	6,840	4,600
Sundry payables	15,582	11,401	5,590	3,797
Dividend payable	2,796	1,936	2,796	1,936
Derivatives	–	7	–	–
Balance due for acquisitions of property, plant and equipment (Note 11)	27,882	8,452	705	744
Amounts due to holding company	3,148	2,300	1,387	1,367
Amounts due to related company	–	2	–	2
Total trade and other payables	74,586	42,543	19,493	12,451
Add: Loans and borrowings (Note 18)	69,479	39,369	2,725	490
Less: Derivatives	–	(7)	–	–
Total financial liabilities carried at amortised cost	144,065	81,905	22,218	12,941

(i) Trade and sundry payables are non-interest bearing. They are normally settled on 30 - 60 days (2016: 30 - 60 days) terms.

(ii) Amounts due to holding company are non-trade in nature, unsecured, non-interest bearing and are repayable on demand.

(iii) Amounts due to subsidiary and related companies are trade in nature, unsecured, non-interest bearing and are repayable on demand.

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
USD	29,632	9,728	300	937
RM	32,317	23,795	16,810	10,135
RMB	8,025	6,520	–	–
Others	4,612	2,500	2,383	1,379
	74,586	42,543	19,493	12,451

21. DEFINED BENEFIT OBLIGATIONS

The Group operates an unfunded defined benefit plan. The level of benefit provided depends on eligible employees' length of service and their salary in their final years leading up to retirement.

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of its defined benefit plan is as follows:

	Group	
	2017 RM'000	2016 RM'000
Present value of defined benefit obligations, representing defined benefit liability	3,038	2,687

Changes in present value of the defined benefit obligations are as follows:

	Group	
	2017 RM'000	2016 RM'000
Balance at beginning of the financial year	2,687	–
Current service costs	265	2,667
Interest costs	42	20
Remeasurement loss on defined benefit obligations		
• Actuarial loss arising from changes in financial assumptions	44	–
Balance at end of the financial year	3,038	2,687

The components of amounts recognised in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

Reported in profit or loss

		Group	
	Note	2017 RM'000	2016 RM'000
Current service costs	6	265	2,667
Interest costs	7	42	20
		307	2,687

Reported in other comprehensive income

	Group	
	2017 RM'000	2016 RM'000
Actuarial loss arising from changes in financial assumptions	44	–

21. DEFINED BENEFIT OBLIGATIONS (CONT'D)

The principal assumptions used in determining the obligations for the defined benefit plan are shown below:

	Group	
	2017 %	2016 %
Discount rates	4.72	4.90
Expected rate of future salary increases	5.00	5.00

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations at the reporting date, assuming if all other assumptions were held constant:

		Group	
	Increase/ (decrease)	2017 RM'000	2016 RM'000
Discount rates	0.25%	(60)	(60)
	–0.25%	64	62
Expected rate of future salary increases	0.25%	64	61
	–0.25%	(60)	(60)

The duration of the defined benefit obligations at the reporting date is 7 to 10 years (2016: 8 to 11 years).

22. RELATED PARTY TRANSACTIONS

(i) Sales and purchase of goods and services

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries				
Management fees charged by Sunright Limited	9,552	7,069	4,514	3,887
Dividend paid/payable to Sunright Limited	1,978	1,562	1,978	1,562
Sales to:				
– KES Systems, Inc.	25	1,045	–	–
Purchases from:				
– KES Systems & Service (1993) Pte Ltd	2,607	603	2,434	585
– Kestronics (M) Sdn. Bhd.	–	59	–	7
– KES Systems, Inc.	40	–	40	–
– KES Systems & Service (Shanghai) Co., Ltd	46	56	–	–
– KEST Systems & Service Ltd	47	175	47	175

22. RELATED PARTY TRANSACTIONS (CONT'D)

(i) Sales and purchase of goods and services (cont'd)

	Company	
	2017 RM'000	2016 RM'000
Transactions with subsidiaries		
Rental income from a subsidiary for rent of a factory	1,382	1,378
Commission income from a subsidiary	1,367	–
Interest income on loans to a subsidiary	212	–
Sales of equipment to a subsidiary	1,594	–
Dividend income from a subsidiary	17,000	–
Loans to a subsidiary	15,000	–

Loans to a subsidiary were fully repaid by the subsidiary during the financial year.

Information regarding outstanding balances arising from related party transactions as at reporting date is disclosed in Notes 14 and 20.

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

(ii) Compensation of key management personnel

The executive directors of the Group are the key management personnel of the Group, whose remuneration are disclosed in Note 8.

23. COMMITMENTS

(i) Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Property, plant and equipment				
Authorised and contracted for	13,287	10,119	284	478
Authorised but not contracted for	1,696	3,088	–	–
	14,983	13,207	284	478

Included in authorised and contracted for commitment is an amount of RM132,000 (2016: RM140,000) and nil (2016: RM16,000) relating to purchases from related companies by the Group and the Company respectively.

23. COMMITMENTS (CONT'D)

(ii) Operating lease commitments - as lessee

The Group has entered into operating leases on office equipment, with lease terms between one and five years. The Group has the option, under some of its leases, to lease the assets for additional terms of three to five years.

Future minimum rentals payable under non-cancellable operating leases as at 31 July are as follows:

	Group	
	2017 RM'000	2016 RM'000
Within one year	18	25
After one year but not more than five years	7	27
	25	52

(iii) Finance lease commitments

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

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Minimum lease payments				
Within one year	4,222	1,609	1,884	223
After one year but not more than five years	2,162	2,058	974	316
Total minimum lease payments	6,384	3,667	2,858	539
Less: Amounts representing finance charges	(299)	(310)	(133)	(49)
Present value of minimum lease payments	6,085	3,357	2,725	490
Present value of payments				
Within one year (Note 18)	3,983	1,483	1,774	203
After one year but not more than five years (Note 18)	2,102	1,874	951	287
Present value of minimum lease payments (Note 18)	6,085	3,357	2,725	490

(iv) Financial instruments

Derivative and other financial instruments included in the statements of financial position at 31 July are as follows:

		Group			
		2017		2016	
	Note	Assets RM'000	Liabilities RM'000	Assets RM'000	Liabilities RM'000
Forward currency contracts	20	–	–	–	(7)
Investment securities held for trading		8,046	–	4,184	–
Total financial assets/(liabilities) at fair value through profit or loss		8,046	–	4,184	(7)

23. COMMITMENTS (CONT'D)

(iv) Financial instruments (cont'd)

	Company	
	2017 Assets RM'000	2016 Assets RM'000
Investment securities held for trading, representing total financial assets at fair value through profit or loss	8,046	4,184

As at 31 July 2016, the Group held one forward currency contract, with total outstanding notional amount of RM1,011,000. The outstanding forward contract matured within one month.

The Group does not apply hedge accounting.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

(i) Financial instruments that are carried at fair value

There has been no transfer between Level 1 and Level 2 fair value measurements during the financial years ended 2017 and 2016.

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

	Note	Quoted prices in active markets for identical instruments (Level 1) RM'000	Significant observable inputs other than quoted prices (Level 2) RM'000	Total RM'000
2017				
Group/Company				
Recurring fair value measurement				
Financial assets				
Held for trading investments				
– Investment securities (quoted)		8,046	–	8,046
2016				
Group/Company				
Recurring fair value measurement				
Financial assets				
Held for trading investments				
– Investment securities (quoted)		4,184	–	4,184
Group				
Recurring fair value measurement				
Financial liabilities				
Derivatives				
– Forward currency contracts	20	–	7	7

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(i) Financial instruments that are carried at fair value (cont'd)

Determination of fair value

Investment securities held for trading - Fair value is determined directly by reference to their published market bid price at the reporting date.

Derivatives - Forward currency contracts are valued using a valuation technique with market observable inputs. The most frequently applied valuation techniques include forward pricing model, using present value calculations. The model incorporates various inputs including foreign exchange spot and forward rates as well as forward rate curves.

(ii) Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

Trade and other receivables (Note 14), cash and short-term deposits (Note 15), loans and borrowings (Note 18) and trade and other payables (Note 20)

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

(iii) Financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

The fair value of financial liabilities by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value are as follows:

		Group			
		Carrying amount	Fair value	Carrying amount	Fair value
	Note	2017 RM'000	2017 RM'000	2016 RM'000	2016 RM'000
Financial liabilities					
Obligations under finance leases (non-current)	18	2,102	2,077	1,874	1,910

		Company			
		Carrying amount	Fair value	Carrying amount	Fair value
		2017 RM'000	2017 RM'000	2016 RM'000	2016 RM'000
Financial liabilities					
Obligations under finance leases (non-current)	18	951	940	287	294

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group and the Company are exposed to financial risks arising from their operations and the use of financial instruments. The key financial risks include interest rate risk, foreign currency risk, liquidity risk, credit risk and market price risk. The Board of Directors reviews policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is, and has been, throughout the current and previous financial year, the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

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

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

(i) Interest rate risk

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

The Group's and the Company's exposure to interest rate risks arises primarily from their loans and borrowings. The Group obtains additional financing through bank borrowings and leasing arrangments.

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

The Group's policy is to obtain the most favourable interest rates available.

Sensitivity analysis for interest rate risk

At the reporting date, if interest rates had been 25 basis points lower/higher, with all other variables held constant, the Group's profit before tax would have been RM124,000 (2016: RM136,000) higher/lower, arising mainly as a result of lower/higher interest expenses on floating loans and borrowings.

(ii) Foreign currency risk

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

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

The Group and the Company also hold cash and cash equivalents denominated in foreign currencies (Note 15) for working capital purpose.

The Group is also exposed to currency translation risk arising from the Company's net investment in foreign operation, PRC. The Company's net investment in PRC which is not hedged as currency position in RMB, is considered to be long-term in nature.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(ii) Foreign currency risk (cont'd)

Sensitivity analysis for foreign currency risk

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

			Group		Company	
			2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
USD/RM	– strengthened 1%	(2016: 1%)	(98)	84	5	45
	– weakened 1%	(2016: 1%)	98	(84)	(5)	(45)
USD/RMB	– strengthened 1%	(2016: 1%)	(1)	(52)	–	–
	– weakened 1%	(2016: 1%)	1	52	–	–

(iii) Liquidity risk

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

Analysis of financial instruments by remaining contractual maturities

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

		2017 RM'000		
	Note	On demand or within one year	One to five years	Total
Group				
Financial assets				
Investment securities held for trading		8,046	–	8,046
Trade and other receivables	14	82,680	–	82,680
Cash and short-term deposits	15	127,576	–	127,576
Total undiscounted financial assets		218,302	–	218,302
Financial liabilities				
Trade and other payables	20	(74,586)	–	(74,586)
Loans and borrowings		(34,434)	(39,592)	(74,026)
Total undiscounted financial liabilities		(109,020)	(39,592)	(148,612)
Total net undiscounted financial assets/(liabilities)		109,282	(39,592)	69,690

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(iii) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

	Note	2017 RM'000 On demand or within one year	One to five years	Total
Company				
Financial assets				
Investment securities held for trading		8,046	–	8,046
Trade and other receivables	14	40,197	–	40,197
Cash and short-term deposits	15	55,523	–	55,523
Total undiscounted financial assets		103,766	–	103,766
Financial liabilities				
Trade and other payables	20	(19,493)	–	(19,493)
Loans and borrowings		(1,884)	(974)	(2,858)
Total undiscounted financial liabilities		(21,377)	(974)	(22,351)
Total net undiscounted financial assets/(liabilities)		82,389	(974)	81,415

	Note	2016 RM'000 On demand or within one year	One to five years	Total
Group				
Financial assets				
Investment securities held for trading		4,184	–	4,184
Trade and other receivables	14	70,421	–	70,421
Cash and short-term deposits	15	112,748	–	112,748
Total undiscounted financial assets		187,353	–	187,353
Financial liabilities				
Trade and other payables	20	(42,543)	–	(42,543)
Loans and borrowings		(30,999)	(10,190)	(41,189)
Total undiscounted financial liabilities		(73,542)	(10,190)	(83,732)
Total net undiscounted financial assets/(liabilities)		113,811	(10,190)	103,621
Company				
Financial assets				
Investment securities held for trading		4,184	–	4,184
Trade and other receivables	14	20,456	–	20,456
Cash and short-term deposits	15	56,614	–	56,614
Total undiscounted financial assets		81,254	–	81,254
Financial liabilities				
Trade and other payables	20	(12,451)	–	(12,451)
Loans and borrowings		(223)	(316)	(539)
Total undiscounted financial liabilities		(12,674)	(316)	(12,990)
Total net undiscounted financial assets/(liabilities)		68,580	(316)	68,264

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(iii) Liquidity risk (cont'd)

Analysis of financial instruments by remaining contractual maturities (cont'd)

The contracted expiry of the Company's corporate guarantee matures within 3 years. This is based on the earliest period in which the corporate guarantee contracts could be called. The maximum amount of the corporate guarantee contracts are disclosed in Note 18.

(iv) Credit risk

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

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

Exposure to credit risk

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

- the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values; and
- a nominal amount of RM5,026,000 (2016: Nil) relating to corporate guarantees provided by the Company to the financial institutions for a subsidiary's bank loans.

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

Credit risk concentration profile

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

	2017		2016	
	RM'000	% of total	RM'000	% of total
Group				
By country				
Malaysia	56,185	70	46,978	69
Others*	24,485	30	21,536	31
	80,670	100	68,514	100

* Others include countries such as PRC, United States of America and European countries.

	2017		2016	
	RM'000	% of total	RM'000	% of total
By industry sectors				
Burn-in, testing and electronic manufacturing services	80,670	100	68,514	100

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(iv) Credit risk (cont'd)

Credit risk concentration profile (cont'd)

At the reporting date, approximately:

- 87% (2016: 83%) of the Group's trade receivables were due from 5 (2016: 5) major customers who are major players in the semiconductor industry; and

- Less than 1% (2016: 3%) of the Group's trade and other receivables were due from related parties.

Company

100% (2016: 100%) of the Company's trade receivables are located in Malaysia.

Financial assets that are neither past due nor impaired

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

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 14.

(v) Market price risk

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

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

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

Sensitivity for market price risk

At the reporting date, if the FTSE Bursa Malaysia KLCI had been 5% (2016: 5%) higher/lower, with all other variables held constant, the Group's profit before tax would have been RM402,000 (2016: RM209,000) higher/lower, arising as a result of higher/lower fair value gain on investment securities held for trading.

26. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 July 2017 and 31 July 2016.

26. CAPITAL MANAGEMENT (CONT'D)

As disclosed in Note 17, a subsidiary of the Group is required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for the financial year ended 31 July 2017 and 31 July 2016.

The Group will continue to be guided by prudent financial policies of which gearing is an important aspect. The Group includes within net debt, loans and borrowings, less cash and short-term deposits. Capital includes equity attributable to owners of the Company less statutory reserve fund.

	Note	Group 2017 RM'000	Group 2016 RM'000
Loans and borrowings	18	69,479	39,369
Less: Cash and short-term deposits	15	(127,576)	(112,748)
Net cash		(58,097)	(73,379)
Equity attributable to owners of the Company		329,139	286,718
Less: Statutory reserve fund	17	(4,629)	(4,629)
		324,510	282,089
Capital and net cash		266,413	208,710

At the reporting date, the Group's cash and short-term deposits exceeded its loans and borrowings. Therefore, gearing ratio is not meaningful to the Group.

27. SEGMENT INFORMATION

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

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

Geographical segments

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

	Revenue 2017 RM'000	Revenue 2016 RM'000	Non-current assets 2017 RM'000	Non-current assets 2016 RM'000
Malaysia	237,543	196,493	220,810	146,360
PRC	67,687	57,156	22,063	23,410
Others	32,758	32,085	–	–
	337,988	285,734	242,873	169,770

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

27. SEGMENT INFORMATION (CONT'D)

Information about major customers

The Group's customer base includes two (2016: two) customers from burn-in, testing and electronic manufacturing services segment, with whom transactions have exceeded 10% of the Group's revenue. Revenue generated from these two customers amounted to approximately RM232,847,000 (2016: RM194,953,000).

28. DIVIDENDS

	Group	
	2017 RM'000	2016 RM'000
Recognised during the financial year		
Final tax exempt dividend for 2016 at 3 sen (2015: 3 sen) per ordinary share	1,290	1,290
Interim tax exempt dividend for 2017 at 6.5 sen (2016: 4.5 sen) per ordinary share	2,796	1,936
	4,086	3,226
Proposed but not recognised as a liability as at 31 July		
Final tax exempt dividend for 2017 at 6 sen (2016: 3 sen) per ordinary share	2,581	1,290

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2017, of 6 sen on 43,014,500 ordinary shares, amounting to dividend payable of RM2,581,000 will be proposed for shareholders' approval. The financial statements for the current financial year do not reflect this proposed dividend. Such dividend, if approved by the shareholders, will be accounted for in equity as an appropriation of retained earnings in the financial year ending 31 July 2018.

29. COMPARATIVES

Certain comparative figures have been reclassified to conform to current financial year's presentation.

	As previously stated RM'000	Reclassification adjustment RM'000	As restated RM'000
Consolidated statement of financial position			
As at 31 July 2016			
Trade and other payables	45,230	(2,687)	42,543
Defined benefit obligations	–	2,687	2,687

The above reclassification does not have any impact to retained earnings of the Group.

30. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 July 2017 were authorised for issue in accordance with a resolution of the directors on 19 September 2017.

31. SUPPLEMENTARY INFORMATION ON THE DISCLOSURE OF REALISED AND UNREALISED PROFIT OR LOSS

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

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

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

	Group		Company	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Total retained earnings of the Company and its subsidiaries				
– realised	298,202	260,337	140,344	122,531
– unrealised	3,107	(195)	3,061	653
	301,309	260,142	143,405	123,184
Less: Consolidation adjustments	(35,805)	(34,502)	–	–
Retained earnings as per financial statements	265,504	225,640	143,405	123,184

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

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

SHAREHOLDERS' INFORMATION

As at 19 September 2017

ANALYSIS OF SHAREHOLDINGS

Total Number of Issued Shares	:	43,014,500
Class of Shares	:	Ordinary Shares
Voting Rights	:	One vote per ordinary share

ANALYSIS BY SIZE OF HOLDINGS

Number of Holders	Holdings	Total Holdings	%
35	Less than 100	377	0.00
671	100 to 1,000 shares	444,900	1.03
856	1,001 to 10,000 shares	3,156,283	7.34
176	10,001 to 100,000 shares	5,431,140	12.63
35	100,001 to less than 5% of issued shares	13,156,800	30.59
1	5% and above of issued shares	20,825,000	48.41
1,774	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

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

DIRECTORS' SHAREHOLDINGS (PER REGISTER OF DIRECTORS' SHAREHOLDING)

SHARES IN THE COMPANY

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

* Deemed interest by virtue of his substantial shareholding in Sunright Limited

SHARES IN RELATED CORPORATION

The interest of Directors in related companies remains the same as disclosed in the Directors' Report for the year ended 31 July 2017.

SHAREHOLDERS' INFORMATION

As at 19 September 2017

THIRTY LARGEST SHAREHOLDERS

	Name of Shareholders	Number of Shares Held	Percentage of Shareholdings
1.	Sunright Limited	20,825,000	48.41
2.	Tan Kong Hong Alex	2,057,500	4.78
3.	Wong Tee Kim @ Wong Tee Fatt	1,550,000	3.60
4.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt AN for AIA Bhd.	1,048,000	2.44
5.	Citigroup Nominees (Asing) Sdn Bhd Exempt AN for Citibank New York (Norges Bank 9)	774,700	1.80
6.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LPF)	654,000	1.52
7.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LBF)	610,200	1.42
8.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (F Templeton)	461,800	1.07
9.	Amsec Nominees (Tempatan) Sdn Bhd Nomura Asset Management Malaysia Sdn Bhd for Tenaga Nasional Berhad Retirement Benefit Trust Fund	458,400	1.07
10.	Malaysia Nominees (Tempatan) Sendirian Berhad Great Eastern Life Assurance (Malaysia) Berhad (LGF)	456,800	1.06
11.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lim Kong Hwee (E-KPG/SGK)	416,900	0.97
12.	Tan Kim Hin	400,000	0.93
13.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (F.Temislamic)	358,900	0.83
14.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for RHB Small Cap Opportunity Unit Trust	340,900	0.79
15.	Tan Jin Tuan	333,000	0.77
16.	Lim Khuan Eng	300,000	0.70
17.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Pertubuhan Keselamatan Sosial (Nomura 6939-401)	272,100	0.63
18.	CIMSEC Nominees (Tempatan) Sdn Bhd CIMB Bank for Yong Loy Huat (M78069)	250,000	0.58
19.	Cartaban Nominees (Tempatan) Sdn Bhd RHB Trustees Berhad for KAF Vision Fund	210,000	0.49
20.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lau How Siong	191,000	0.44
21.	Citigroup Nominees (Tempatan) Sdn Bhd Exempt AN for AIA Public Takaful Bhd.	160,100	0.37
22.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account for Lee Khoon Beng (E-KLG)	156,000	0.36
23.	Soon Hock Teong	148,500	0.35
24.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Manulife Investment Progress Fund (4082)	142,200	0.33
25.	Heng Peng Hong	140,000	0.33
26.	Amanahraya Trustees Berhad PB Smallcap Growth Fund	136,500	0.32
27.	DB (Malaysia) Nominee (Tempatan) Sendirian Berhad Deutsche Trustees Malaysia Berhad for AIA Pam-Islamic Moderate Fund	136,500	0.32
28.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd for Manulife Investment Al-Fauzan (5170)	123,600	0.29
29.	Amanahraya Trustees Berhad PMB Shariah Growth Fund	121,900	0.28
30.	RHB Nominees (Asing) Sdn Bhd Pledged Securities Account for Tan Lee Gek	112,300	0.26
	TOTAL	33,346,800	77.51

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 46th Annual General Meeting of the Company will be held at Spectrum and Prism, Level 3A, CONNEXION @ NEXUS, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Malaysia on Thursday, 11 January 2018 at 10:00 a.m. for the following purposes: -

AGENDA

AS ORDINARY BUSINESS

1. To receive the audited financial statements for the financial year ended 31 July 2017 together with the reports of the Directors and of the Auditors thereon.

2. To declare a final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 July 2017. Resolution 1

3. To approve payment of Directors' fees and allowances of RM281,000 in respect of the financial year ended 31 July 2017. Resolution 2 *(Please see Explanatory Note)*

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

   (a) Samuel Lim Syn Soo Resolution 3

   (b) Tuan Haji Zakariah Bin Yet Resolution 4

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

6. To transact any other business which may be properly transacted at an Annual General Meeting, due notice of which shall have been previously given in accordance with the Companies Act 2016 and the Company's Articles of Association.

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

Petaling Jaya
26 October 2017

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint proxy/proxies who may but need not be member/members of the Company to attend and vote in his/her stead.

2. When a member appoints two or more proxies the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.

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

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

5. Depositors whose name appear in the Record of Depositors on 5 January 2018 shall be regarded as member of the Company entitled to attend the 46th Annual General Meeting or appoint proxy/proxies to attend and vote on his/her behalf.

Explanatory Note To Resolution 2: -

Payment of Directors' fees and allowances in respect of the financial year ended 31 July 2017 are as follows:

Description	Amount
Directors' fees	RM254,000
Allowances (Payable to Non-Executive Directors only)	RM27,000
Total	RM281,000

NOTICE OF DIVIDEND ENTITLEMENT

NOTICE IS HEREBY GIVEN that the final tax exempt dividend of 6 sen per share in respect of the financial year ended 31 July 2017, if approved at the forthcoming Annual General Meeting, will be paid on 13 February 2018 to Depositors registered in the Record of Depositors on 18 January 2018. A Depositor shall qualify for entitlement only in respect of:

(a) shares transferred into the Depositor's securities accounts before 4.00 p.m. on 18 January 2018, in respect of ordinary transfers; and

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

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

Petaling Jaya
26 October 2017

ADMINISTRATIVE NOTES FOR SHAREHOLDERS/PROXIES

ATTENDING THE FORTY-SIXTH ANNUAL GENERAL MEETING ("46TH AGM")

REGISTRATION

1. The registration will commence at 8:30 a.m. and will end at a time as directed by the Chairman of the 46th AGM.
2. Please produce your original identity card (for Malaysian) or Passport (for non-Malaysian) to the registration staff for verification. Photocopy of identity card or Passport will not be accepted. Please make sure you collect your identity card or Passport thereafter.
3. No person will be allowed to register on behalf of another person even with the original identity card or Passport of that other person.
4. After registration and signing on the Attendance List, please vacate the registration area.
5. You will be given a wristband and a Smartcard upon verification and registration.
6. No person will be allowed to enter the meeting hall without the wristband and the Smartcard. A Handset will be given to the shareholders and proxies once the Smartcard is presented to the usherer at the entrance.
7. The wristband must be worn throughout the AGM. There will be no replacement in the event that you lose or misplace the wristband.
8. The Smartcard and Handset must be returned to the usherer at the door once you leave the meeting hall. Please inform the usherer if you are going to the restroom in order for the usherer to hold on to it. Please collect the Smartcard and Handset from the usherer upon returning to the meeting hall.
9. The Smartcard and Handset must be returned to the usherer at the door once the meeting ends. You will be responsible to pay for the cost in the event of loss of or misplacement of the Smartcard and Handset.
10. The registration counters only handle verification of identity and registration. If you have any enquiries or in need of clarification, please proceed to the Help Desk.
11. Registration counters will be closed once the deliberation of the first resolution starts.

REFRESHMENTS

1. Coffee and tea will be served in the refreshment area before the commencement of the AGM.
2. There will be a morning tea break with food provided at the refreshment area once the meeting ends at the time as directed by the Chairman.

SEATING ARRANGEMENTS FOR THE AGM

1. Shareholders and proxies are free to sit anywhere they please.
2. Shareholders and proxies will be allowed to enter the meeting hall upon registration.
3. All shareholders and proxies are encouraged to be seated at least five (5) minutes before the commencement of the AGM.

MOBILE DEVICES

Kindly switch off or turn to silent mode all mobile devices (i.e. phones/pagers/other sound-emitting devices) during the AGM to ensure smooth proceedings.

PERSONAL BELONGINGS

Kindly take care of your personal belongings. The Company will not be held responsible for any loss of items.

ADMINISTRATIVE NOTES FOR SHAREHOLDERS/PROXIES

ATTENDING THE FORTY-SIXTH ANNUAL GENERAL MEETING ("46TH AGM")

PARKING COUPON

1. A standing signage will be prepared to direct shareholders and proxies to the correct location to collect parking coupon.

2. Shareholders and proxies must take note that the collection of parking coupon will cease at 12:00 p.m.. If the collection of parking coupon is after 12:00 p.m., the shareholders and proxies shall responsible to pay the parking coupon themselves.

VOTING PROCEDURES

1. The voting at the AGM will be conducted by way of electronic polling ("ePolling"). The Share Registrar, Boardroom Corporate Services (KL) Sdn Bhd is appointed as Poll Administrator to conduct the polling process and a scrutineer is appointed to verify and validate the poll results.

2. Voting via ePolling will be carried out separately for each individual resolution upon the conclusion of the deliberation.

3. All attendees of the AGM will be briefed and guided by the Poll Administrator before the commencement of the ePolling process.

2017 ANNUAL REPORT

The 2017 Annual Report is available on KESM Industries Berhad's website at www.kesmi.com and Bursa Malaysia's website at www.bursamalaysia.com under Company's announcement. Printed copies are also available for collection on a first come first serve basis from the table near the entrance of the meeting hall.

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PROXY FORM

KESM INDUSTRIES BERHAD (13022-A)

I / We ____ (Full Name in Block Letters)

NRIC/Passport/Company No. ______________________ of ______________________

____ (Address)

being a member / members of KESM Industries Berhad hereby appoint

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

and / or (delete as appropriate)

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

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and vote for me/us on my/our behalf, at the 46th Annual General Meeting of the Company to be held at Spectrum and Prism, Level 3A, CONNEXION @ NEXUS, No. 7 Jalan Kerinchi, Bangsar South City, 59200 Kuala Lumpur, Malaysia on Thursday, 11 January 2018 at 10.00 a.m. and at any adjournment thereof.

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

No.	Resolutions	For*	Against*
1.	Approval of final dividend		
2.	Approval of Directors' fees and allowances		
3.	Re-election of Samuel Lim Syn Soo as Director		
4.	Re-election of Tuan Haji Zakariah Bin Yet as Director		
5.	Re-appointment of Auditors		

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

Total Number of Shares Held	

Signed this ____________ day of ____________ 2017/2018

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

Notes: -

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint proxy/proxies who may but need not be a member/members of the Company to attend and vote in his/her stead.

2. When a member appoints two or more proxies the appointments shall be invalid unless he/she specifies the proportions of his/her holdings to be represented by each proxy.

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

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

5. A Depositor whose name appears in the Record of Depositors on 5 January 2018 shall be regarded as a member of the Company entitled to attend the 46th Annual General Meeting or appoint proxy/proxies to attend and vote on his/her/its behalf.

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Affix
postage
here

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

Fold here

A Member of

SUNRIGHT

KESM INDUSTRIES BERHAD (13022-A)

Lot 4, SS 8/4
Sungei Way Free Industrial Zone
47300 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA
Tel : (603) 787-40000
Fax: (603) 787-58558