A Member of

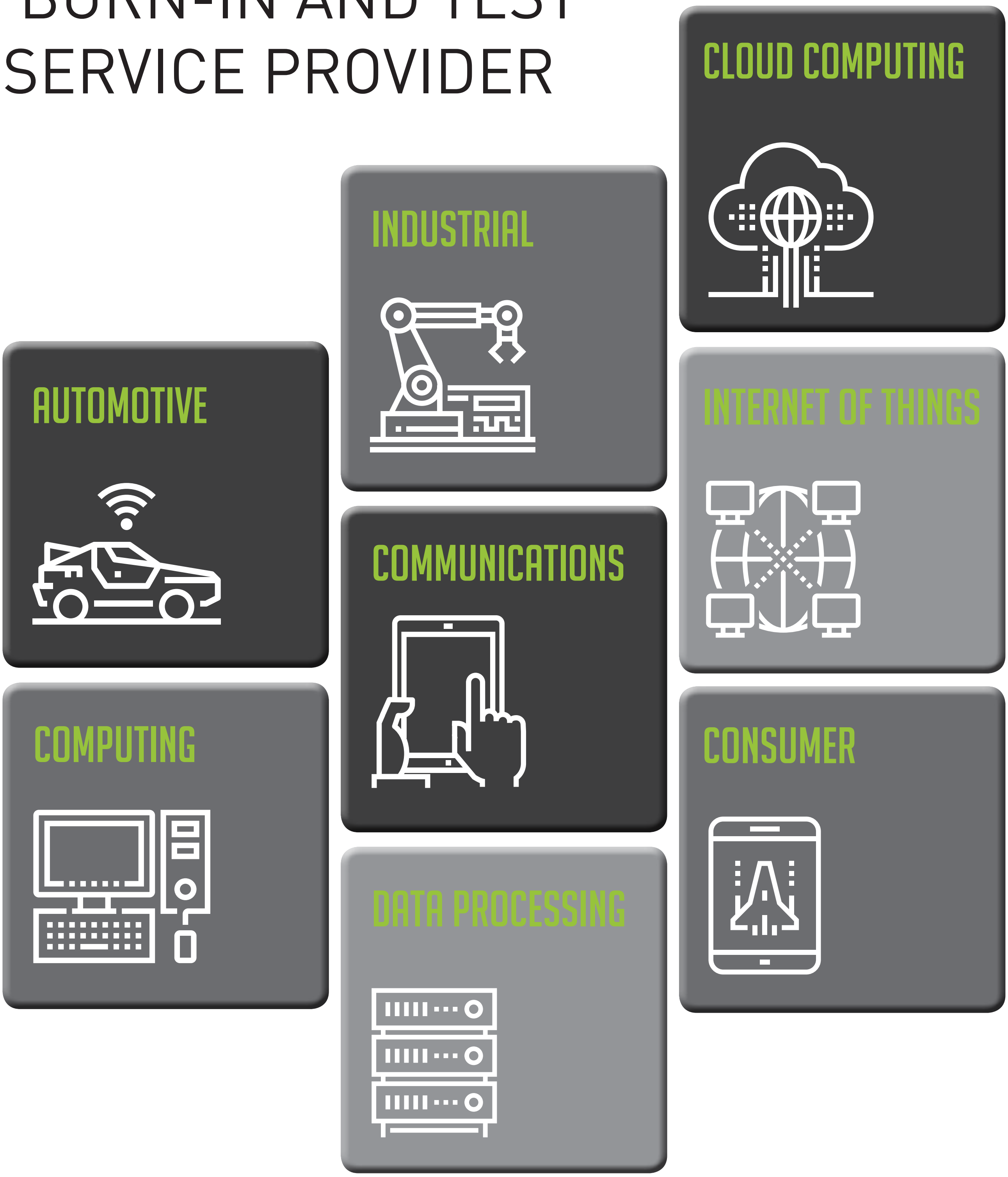
SUNRIGHT

KESM INDUSTRIES BERHAD
(13022-A)

ANNUAL REPORT 2019

THE WORLD'S LARGEST INDEPENDENT

'BURN-IN AND TEST' SERVICE PROVIDER



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

CONTENTS

WE ARE READY TO ACCELERATE

KESM aims to be the world's largest independent "test and burn-in" service company for cars.

CHAIRMAN'S STATEMENT

DEAR FELLOW SHAREHOLDERS

FAVOURABLE PERFORMANCE IN A DIFFICULT ENVIRONMENT

Last year, I closed my letter on a positive note. However, as we entered 2019, the global economic landscape turned the corner. KESM Group felt the impact of the U.S. and China trade war, a lower demand of cars in China and the anaemic health of the semiconductor industry.

We emerged from the weak environment with a net profit of RM6.3 million. The Group's revenue slipped 12% to RM307.4 million from RM349.8 million in 2018. Earnings Per Share stood at 14.6 sen at the close of the financial year as compared to 91.5 sen last year.

Although the year was a challenging one, there were still some positive events for our shareholders. An interim dividend of 3 sen per ordinary share totalling RM1.3 million, was distributed to shareholders on 27th August 2019. Additionally, the Board is proposing a final tax exempt dividend of 6 sen amounting to RM2.6 million, subject to the approval of our shareholders, at the next Annual General Meeting to be held on 8th January 2020.

GEARING FOR THE NEXT WAVE OF GROWTH

We serve 5 out of the top 10 automotive semiconductor manufacturers in the world. Our customers are gearing to introduce smart chips for the next generation of electric cars and autonomous cars, requiring chips to be reliable. Testing and burn-in of such chips are required to ensure devices are fail-proof. Billions of dollars are being spent on new cars and electronic contents in cars are increasing.

INVESTING ON SMART FACTORIES

KESM will continue to focus on upgrading our manufacturing process technology and excel in quality excellence to better service our blue-chip customers.

We completed our second year of our 4-year journey on transformation "4.0". We invested on IT/software tools to complement our in-line process automation development of an initial prototype last year. When fully integrated, these will form our smart factory, with early detection of quality process issues. This will fully ensure devices are tested and burn-in reliably.

MAINTAINING OUR #1 SPOT IN THE RACE

KESM aims to be the world's largest independent "test and burn-in" service company for cars. We are reaching our goal by working with the largest and most successful automotive semiconductor manufacturers. Over a billion devices leave our factories each year going to wide varieties of cars made in the United States, Europe, Japan and China.

A POSITION OF STRENGTH

Our customers make cars smarter. We make factories smarter to ensure their chips work reliably on various new innovations. We are ready to accelerate. We celebrated our 40th anniversary this year. It marks a milestone in KESM's history that we are resilient. We experienced the financial crisis, dot com bubble, the perfect storm in the semiconductor industry and many others. The environment is continuously unstable. There is nothing certain except for the need to have strong risk management, preserve cash, build a strong management team with a strategy to win the race.

APPRECIATION

Once again, let me thank our employees for their dedication and support, our valued customers, suppliers and bankers for making KESM successful. Lastly, as always my appreciation for the Board of Directors and the management staff for their invaluable contributions in 2019.

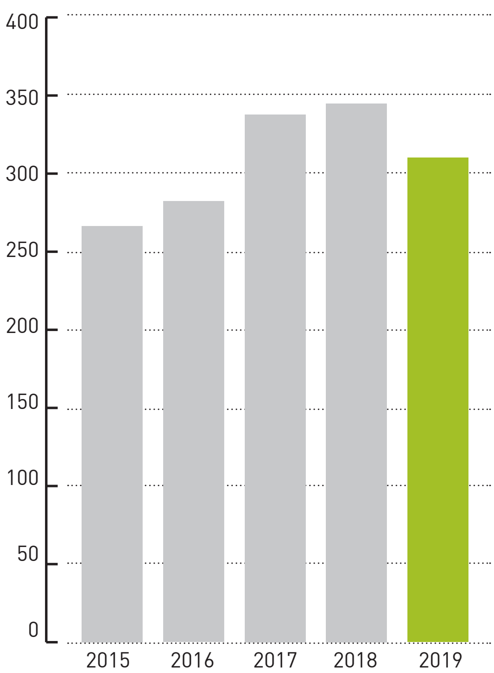
SAMUEL LIM SYN SOO
Executive Chairman & Chief Executive Officer
19th September 2019

MANAGEMENT DISCUSSION
AND ANALYSIS

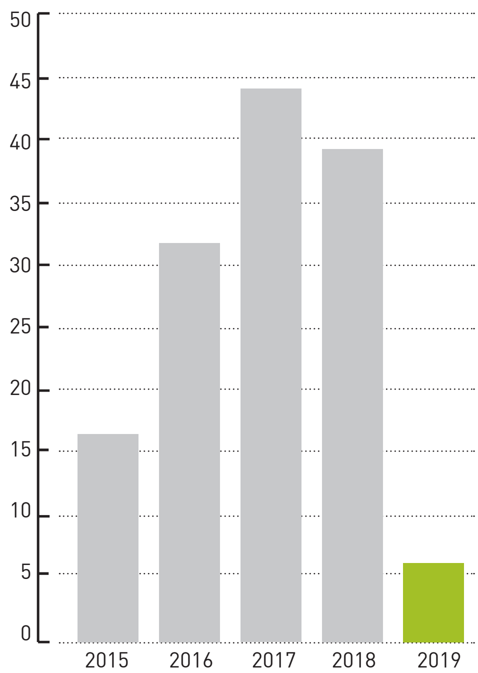
5-YEAR FINANCIAL HIGHLIGHTS

FY Ended 31 July (RM '000)	2015	2016	2017	2018	2019
Revenue	263,122	285,734	337,988	349,777	307,375
Profit Before Tax	24,039	36,239	47,843	43,686	9,508
Net Profit Attributable to Owners of the Company	17,031	30,683	43,994	39,338	6,276
Total Equity Attributable to Owners of the Company	260,466	286,718	329,139	356,507	359,145
Basic Earnings Per Share (sen)	39.6	71.3	102.3	91.5	14.6
Dividend Per Share (sen)	6.0	7.5	12.5	18.5	9.0

REVENUE
In RM Millions



NET PROFIT
In RM Millions



MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group also provides electronic manufacturing services (EMS) primarily to original equipment manufacturers, original design manufacturers in the industrial 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 EMS 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 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 for potential defects due to the manufacturing and assembling processes, that may 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 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 40 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's revenue decreased by 12% or RM42.4 million, from RM349.8 million in the financial year ended 31 July 2018 ("FY2018") to RM307.4 million in the current financial year ended 31 July 2019 ("FY2019"), largely as a result of lower demand for burn-in and testing services, partially offset by higher revenue from EMS.

Interest income was higher by 58% or RM2.2 million, from RM3.7 million in FY2018 to RM5.9 million in FY2019, following higher placements of short-term deposits during the current financial year.

MANAGEMENT DISCUSSION
AND ANALYSIS

Raw materials and consumables used and changes in inventories of finished goods and work-in-progress increased by 34% or RM10.9 million, from RM31.7 million in FY2018 to RM42.5 million in FY2019, to support the increased EMS revenue from new customers.

Employee benefits expense decreased by 8% or RM9.2 million, from RM112.8 million in FY2018 to RM103.6 million in FY2019, following lower compensation due to lower production.

Depreciation was lower by 4% or RM3.5 million, from RM78.4 million in FY2018 to RM74.9 million in FY2019, as certain machinery and test equipment were fully depreciated during the current financial year.

Other expenses were lower by 5% or RM4.7 million, from RM86.2 million in FY2018 to RM81.5 million in FY2019. This decrease was mainly attributable to (i) lower repairs and maintenance cost by RM4.6 million; (ii) lower management fees by RM2.6 million; partially offset by (iii) the final settlement of litigation expenses of RM1.7 million; and (iv) a net fair value loss on investment securities of RM1.1 million.

Consequently, the Group's profit before tax decreased by 78% or RM34.2 million, from RM43.7 million in FY2018 to RM9.5 million in the current financial year.

REVIEW OF FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Property, plant and equipment ("PPE") was lower by 22% or RM46.2 million, from RM211.0 million as at 31 July 2018 ("Y/E2018") to RM164.8 million as at 31 July 2019 ("Y/E2019"). The decrease in PPE was primarily due to depreciation charge of RM74.9 million, partially offset by additional capital expenditure of RM29.1 million.

Inventories reduced by 20% or RM1.9 million, from RM9.3 million as at Y/E2018 to RM7.4 million as at Y/E2019, following delivery of finished goods.

Trade and other receivables were lower by 15% or RM11.4 million, from RM77.3 million as at Y/E2018 to RM65.9 million as at Y/E2019, mainly due to lower trade receivables as a result of lower revenue in 4QFY2019.

Prepayments reduced by 52% or RM2.9 million, from RM5.6 million as at Y/E2018 to RM2.7 million as at Y/E2019, mainly attributable to lower downpayments made on purchases of machinery and test equipment.

Investment securities decreased by 31% or RM3.0 million, from RM9.6 million as at Y/E2018 to RM6.7 million as at Y/E2019, reflecting a net disposal of quoted equity shares of RM1.9 million, and a net fair value loss of RM1.1 million.

Cash and short-term deposits improved by 13% or RM22.4 million, from RM177.6 million as at Y/E2018 to RM200.0 million as at Y/E2019, which represented the net surplus cash generated from operations.

Trade and other payables decreased by 32% or RM11.5 million, from RM35.8 million as at Y/E2018 to RM24.3 million as at Y/E2019, mainly due to lower dividend payable by RM4.1 million, lower sundry payables by RM2.5 million and lower accrued operating expenses by RM2.2 million.

The Group's loans and borrowings reduced by 35% or RM33.6 million, from RM94.9 million as at Y/E2018 to RM61.3 million as at Y/E2019, primarily due to repayments of RM82.3 million, offset by additional borrowings of RM48.6 million to fund the capital expenditure.

OPERATIONS REVIEW

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

During FY2019, more than 1.6 billion semiconductors were processed in our factories in Malaysia and China. 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 consistency in quality standards 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.

RISKS

The semiconductor industry is not only cyclical but highly capital-intensive in nature. The "semiconductor cycle" refers to the flow of supply and demand and the building and depletion of inventories. Also, 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. Also, KESM builds our production capacities based on customers' planned demands.

We have facilities in Malaysia and China and our revenue comes from services from these locations, which are exposed to political, social and economic conditions. The on-going impact of trade disputes between the U.S. and China, fears of sluggish growth in both these countries may affect our performance.

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

KESM generates revenue for 5 of the top 10 semiconductor manufacturers in the world, who are operating in the US$400 billion semiconductor industry, KESM focuses mainly on the automotive segment. We expect our service to these customers to continue in the foreseeable future, since we are well integrated into their supply chain.

We expect competition from present players or new players in this niche market. We also face intense pricing competition in our market. We also expect the increased pricing competition may lead to reduced profit margins and lost business opportunities in the event that we may not be able to match price reduction of our competitors.

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.

The global economic outlook for 2019 points to slower growth. The International Monetary Fund (IMF) forecasts the world GDP growth to slow to 3.2% in 2019 from 3.6% in 2018 (source IMF, July 2019). Coupled with the increasing protectionist tendencies by some countries and the simmering on-going trade dispute between U.S. and China have affected the market which KESM operates in. The outlook for the worldwide semiconductor industry remains sluggish. According to leading industry analysts, they are predicting revenue to contract between 6% to 9.6% in 2019.

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.

BOARD OF DIRECTORS

MR SAMUEL LIM SYN SOO

Aged 65, Singaporean
Executive Chairman and Chief Executive Officer*

Mr Samuel Lim is the Executive Chairman and Chief Executive Officer of the Company. He has been on the Board since 6 September 1986 and was last re-elected on 11 January 2018. 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 holds 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	Nil	20,825,000 (Deemed interest by virtue of his substantial interest in Sunright Limited)

** also key senior management*

MR KENNETH TAN TEOH KHOON

Aged 62, Singaporean
Executive Director*

Mr Kenneth Tan was first appointed to the Board on 20 January 1992 and was last re-elected on 10 January 2019.

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 Member of the Institute of Singapore Chartered Accountants.

BOARD OF DIRECTORS

MS LIM MEE ING

Aged 68, 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 64, 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 11 January 2018.

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.

BOARD OF DIRECTORS

MR YONG CHEE HOU

Aged 62, Malaysian
Independent Non-Executive Director

Mr Yong was first appointed to the Board on 11 January 2002 and was last re-elected on 10 January 2019. 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 has 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 has any conflict of interest with the Company.

3. CONVICTION OF OFFENCES

None of the Directors has been:

(i) convicted of any offences within the past five (5) years (other than traffic offence); nor

(ii) imposed with any public sanction or penalty by the relevant regulatory bodies during the financial year ended 31 July 2019.

4. DETAILS OF ATTENDANCE AT BOARD MEETINGS HELD IN THE FINANCIAL YEAR ENDED 31 JULY 2019

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)

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SHARE REGISTRAR
Boardroom Share Registrars Sdn. Bhd.
(Company No. 378993-D)
(Formerly known as Symphony Share Registrars Sdn. Bhd.)
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MALAYSIA
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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

SUB-SECTOR
Semiconductors

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. AUDIT AND NON-AUDIT FEES

the amount of audit and 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. The non-audit fees mainly paid or payable to affiliates of Ernst & Young Malaysia, were for the guidance on sustainability reporting.

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 2019 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 2019 ("FY2019").

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 FY2019. 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 FY2019, the Committee:–

Financial Reporting

1. reviewed with the external auditors their audit for the financial year ended 31 July 2018 ("FY2018") 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 2016; and 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 FY2018 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 FY2018 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 FY2019 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 FY2019 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 proposed renewal of the existing shareholders' mandate for 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 FY2018 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:–

    - Fixed Asset and Spare Part Management
    - Energy Consumption Management
    - RRPT
    - Inventory Management
    - Cyber Security Management
    - Facilities Management

    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.

The Board of Directors ("the Board") is committed to ensuring that good corporate governance practices is observed throughout the Company and its subsidiaries ("the Group") as a fundamental part of discharging its responsibilities to protect and enhance shareholders' value and the financial performance of the Group. Hence, the Board has subscribed to the principles and practices of good corporate governance practices (including the intended outcomes) as promulgated by the Malaysian Code of Corporate Governance ("MCCG") in leading and managing the business and affairs of the Group in an effective and responsible manner, whilst promoting business prosperity and corporate accountability with the ultimate objective of realising long-term shareholder value.

This Statement provides an overview of the corporate governance practices adopted by the Company in respect of the financial year ended 31 July 2019 ("FY2019"). It outlines the manner in which the Company has applied the principles and practices set out in the MCCG, in accordance with paragraph 15.25(1) and Practice Note 9 of the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa Securities") . The applications of the principles and practices of the MCCG have also been set out, in greater detail, in the Corporate Governance Report prescribed by Bursa Securities ("CG Report"). Accordingly, this Statement should be read together with the CG Report, which is available on the Company's website: http://www.kesmi.com/announcements.html, to obtain a comprehensive view of the adherence of the Company to the MCCG during FY2019.

PRINCIPLE A – BOARD LEADERSHIP AND EFFECTIVENESS

I. Board Responsibilities

The Board has the overall responsibility over the Company and the companies within the Group. In discharging its duties and responsibilities, the Board had set the strategies of the Group to ensure that the Group was led and managed in an effective and responsible manner so that the objectives and goals are met.

The Board was guided by the Board Charter that had been approved by the Board, as well as internal guidelines which set forth matters that require the Board's approval. This assisted the Board in ensuring that its performance of its duties and responsibilities are in line with the Articles of Association, the Companies Act 2016, the MMLR and any applicable rules, laws and regulations.

Amongst the steps that had been taken by the Board to satisfy its functions and responsibilities were:

i. reviewed, approved and adopted the overall strategic plan of the Group;

ii. conducted periodical reviews of the Group's strategies and business focus concurrently with the regular financial results reporting;

iii. promoted sustainability strategies to support long term value creation, which also took into consideration economic, environmental and social considerations;

iv. reviewed the adequacy and integrity of the Group's internal control and enterprise risk management, as well as the financial and non-financial reporting responsibilities;

v. oversight of succession planning of management by ensuring that the management staff possess the necessary skills and experience; and

vi. oversight of investor relations and shareholder communication.

Chairman of the Board

The Board is led by its Executive Chairman ("Chairman"), who is responsible for instilling good corporate governance practices, leadership and effectiveness of the Board. To this end, the Chairman takes on the role of creating an environment that enables open, robust and effective discourse between the Board members, as well as between the Board and management, and with the stakeholders of the Company. He is supported by the Executive Director, who is responsible for the execution of the decisions made by the Board and the day-to-day operations of the Group.

Role of Chairman and CEO

The roles of the Chairman and the Chief Executive Officer ("CEO") of the Company are held by the same individual, Mr Samuel Lim.

The Board has taken 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 the 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 meeting the Company's objectives and goals. At the same time, in his capacity as Chairman, Mr Samuel Lim has been able to effectively guide discussions to ensure that the Board is properly briefed 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.

To ensure compliance with the relevant principle in the MCCG, the Chairman/CEO always abstains from all deliberations and voting on matters, which he is directly or deemed interested, and the Board ensures that all related party transactions involving the Chairman/CEO are appropriately dealt with in accordance with the MMLR. Moreover, the Senior Independent Non-Executive Director, Tuan Haji Zakariah Bin Yet, is available to deal with any concerns regarding the Company where it would be a conflict for the Chairman/CEO to deal with.

Additionally, the Board comprises sufficient independent directors who are able to exercise their duties unfettered, and make judgements independently for the Board that are fair and objective, and that ensures that the objectives and goals of the Company are met.

Role and Responsibilities of the Company Secretary

The Board is supported by a professionally qualified Company Secretary who is a Fellow Member of the Malaysian Institute of Chartered Secretaries and Administrators. She has more than 30 years of experience in handling corporate secretarial matters.

The Company Secretary is accountable to the Board on all matters connected with the proper functioning of the Board's responsibilities. To this end, during the FY2019, the Company Secretary (1) assisted the Chairman and chairmen of the Board committees in developing agendas for meetings; (2) administered, attended and prepared the minutes of the meetings of the Board, Board Committees and shareholders; (3) advised on statutory and regulatory requirements, monitored the compliance thereof, and the resultant implication of the requirements on the Company and the Board; (4) advised on matters relating to corporate governance practices; and (5) facilitated suitable training courses and arranged for Directors to attend such courses; and (6) ensured good information flow between Board members, the Board and its Committees, as well as between management and the Directors.

Access to Information

All Directors have full and unrestricted access to timely information which is necessary for them to discharge their duties responsibly.

Agendas and meetings papers containing reports, financial statements and information to facilitate active participation and informed decision making, are typically circulated to the Board, and the Board Committees, a week or so prior to the meetings, to allow the Directors to study and evaluate the matters to be discussed. Directors are also able to call for additional clarification and information to assist them in their decision making.

Board Charter

The Board Charter sets out the Board structure and protocols, the Board's roles and responsibilities, including the roles of the individual directors, and that of the senior independent director, the divisions of the responsibilities and powers between the Board and management, and different committees, and also between the Chairman and CEO, establishment of the Board Committees, remuneration of Directors, and processes and procedures for convening Board meetings.

The Board Charter is reviewed periodically, as and when the need arises to cater to the development and requirements of the Group, and changes to legislations and regulations.

The Board Charter is publicly available, in an abridged form, on the Company's website at www.kesmi.com.

Code of Conduct and Ethics and Whistleblowing Policy

The Company has established a code of conduct and ethics ("the Code") that provides an overview of the various policies, procedures and guidelines that have been adopted by the Company to steer acceptable employment practices, ethical values and conduct for behavior of employees. The Company periodically reviews the Code and its adopted policies, standards and guidelines to ensure that the conduct and ethical values it promulgates are upheld in its highest regard in its day-to-day dealings, and are in compliance with all applicable laws, rules and regulations. The Code may be referred to on the Company's website at www.kesmi.com.

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

II. Board Composition

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 FY2019, the Board comprises five (5) directors, three (3) of whom are non-executive. Of the non-executive directors, 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.

Although the Board has not met the requirement of having directors with at least half of them being independent, the Company has proven that the performance of the Group has not been compromised by a lack of majority of independent directors in the composition of the Board. In fact, the success of the Company has not been in doubt due to the professional and knowledgeable contributions of the Executive Chairman and Executive Director of the Company.

Overall, the Directors are bound by their respective fiduciary obligation to act in the best interest of the Company. The independent and diverse perspectives of each of the Board members' views and decisions have effectively contributed to the success of the Group. Nevertheless, Directors have always abstained from the decision-making process where they are deemed interested in a particular matter.

Tenure of Independent Director

Notwithstanding the requirement of the MCCG relating to the tenure of independent directors, the Board is of the view that the tenure of an independent director alone should not be the criterion to determine a director's independence as there are advantages to be gained from the long-serving directors who possess good insight and knowledge of the Group's businesses and affairs.

Instead, the Board, through the Executive Directors, undertakes periodical assessments of the independence of its Independent Directors as it believes that the Executive Directors who have an intimate working relationship amongst the Directors, are well placed to ascertain the independence issue instead of the shareholders. In this regard, the Board has, subsequent to the FY2019, conducted an appraisal on the independence of Mr Yong Chee Hou, and have concluded that he has met the independence criteria set out in the MMLR, and he continues to maintain independent and objective views in rendering his services.

Nevertheless, in line with the objectives of the MCCG for the Company to seek shareholders' approval for retention of long serving independent directors, the Board will seek annual one-tier shareholders' approval for independent directors whose tenure has exceeded nine (9) years as well as twelve (12) years respectively, particularly of Mr Yong Chee Hou.

Appointment and Assessment of Directors and Senior Management

The Nominating Committee is charged with, amongst others, sourcing, selecting and shortlisting suitable potential new board candidates, for the Board's consideration. Some of the key responsibilities of the Nominating Committee are:

(a) reviewing the character, experience, integrity, commitment, competency, qualification and track record of the proposed candidate for appointment to the Board, and in the case of a proposed nomination of an independent non-executive director, to evaluate the nominee's ability to discharge such responsibilities/ functions as expected of an independent non-executive director;

(b) reviewing the structure, size and composition of the Board (including evaluating the mix and balance of skills, knowledge, experience and diversity), and making recommendations to the Board with regard to any changes deemed necessary; and

(c) monitoring and evaluating the effectiveness of the Board and its committees, and developing appropriate procedures for individual evaluations.

The appointment of senior management is also consistently done having regard to the required skill sets, qualification, character, relevant experience, regardless of age or ethnicity.

As part of its succession and talent retention initiatives, the Company will first identify suitable appointee from within the Group, failing which external sourcing via open advertisement or recruitment agencies would be employed to source for candidate that has the best match and fit for the vacancy.

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. In this regard, the Nominating Committee has also evaluated the eligibility of the retiring Directors to stand for re-election and have nominated Mr Samuel Lim Syn Soo and Ms Lim Mee Ing for re-election at the upcoming AGM.

Board Diversity

The Board has not established a diversity policy on gender, nationality, ethnicity and age, nor set any target for that purpose, as it is of the view that in assessing the appropriateness of the composition of the Board, greater consideration should be given to the character, integrity, commitment of availability of time, mix of skills, abilities and expertise, length of service on the Board, the independence criteria as well as experience on other Boards.

The Board believes that the current measures and considerations taken in this regard sufficiently enables the Board, having mix skill sets, experience and talents, to effectively and objectively act in the best interests of the Company.

The table below gives an overview of the Board Diversity:

Diversity in:				
Gender	Male	80%	Female	20%
Race/Ethnicity	Malay	20%	Chinese	80%
Nationality	Malaysian	40%	Foreigner	60%
Age Group	60 to 65 Years	80%	Above 65 Years	20%
Core Competencies	Accounting, banking, business acumen, engineering, finance, general management, human resources, industry knowledge, legal, marketing, manufacturing and strategic development.			

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 an invitation to serve on another Board,
  - ensure that he/she is not already serving on the Board of more than five (5) public listed companies; and
  - gives prior notification to the Chairman.

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.

In the FY2019, the Board met a total of five (5) occasions. The commitment of the each individual director in carrying out their duties is reflected in their full attendance of the Directors at the Board meetings held during the financial year as shown in the table under the "Other Information on Directors" section of this Annual Report. Deliberations of the Board, and the decisions made at the Board meetings, have been duly recorded by the Company Secretary.

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

Directors' Training – Continuing Education Programmes

All the Directors had fulfilled his/her Mandatory Accreditation Programme obligations stipulated by the MMLR. The Directors recognise the need to continue to 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 programmes and external training programmes that are deemed appropriate to aid them in the discharge of their duties as directors. In this regard, the Directors have, from time to time during the normal proceedings of meetings, received updates and briefings, particularly regulatory and industry developments, relevant new laws and changes to the accounting standards, from the management, company secretary and auditors.

During the FY2019, all the Board members have attended trainings that were organised in-house or by professional organisation:

Course Title/Date	Duration	Organiser
How to Develop Business Models for Integrated Reporting 14 November 2018	1/2 day	Malaysian Institute of Corporate Governance
Guidelines on Adequate Procedures under the Malaysian Anti-Corruption Commission Act 2009 12 March 2019	1 hour	In-House
Ethical Business Conduct: Advanced Cases in Corporate Governance 10 April 2019	1 Day	Institute of Singapore Chartered Accountants
Amendments to the Listing Requirements in relation to Continuing Disclosure Obligations and Other Amendments 4 June 2019	1 hour	In-House

Board Committees

Two (2) Board Committees have been established to assist the Board in fulfilling its duties and responsibilities.

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.

Nominating Committee

The Nominating Committee 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

Nominating Committee has clear written Terms of Reference 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 made. The Terms of Reference are available on the Company's website.

The Nominating Committee met twice in the FY2019, and had the full attendance of the Committee, to undertake the necessary evaluations and assessments of the Board, the Board Committees and the individual Directors and to consider revisions to its Terms of Reference.

During the last FY2019, the Nominating Committee had undertaken the following evaluations in accordance with its approved terms of reference:

- evaluated the effectiveness of the Board as a whole and the Board Committees;
- assessed the contributions of each individual director;
- assessed and confirmed the independence of the independent Directors; and
- evaluated the board composition with regards to the mix of its skill and diversity.

The evaluation criteria used for the assessment of the Board comprised assessment of its structure, operation, mix of skill sets and experience, roles and responsibilities, whereas the Board Committees were assessed based on their composition, contribution to the Board's effectiveness and discharge of their duties. As for the performance of the individual directors, some factors used include contribution to interaction, attendance and participation at meetings and decision making processes, quality of input as well as understanding of his/her role and responsibilities. From the results of the assessments, the Nominating Committee was satisfied, and the Board similarly concurred with the Nominating Committee's findings, that the Board is of the right size and is well balanced from the perspective of the mix skill set, experience, strength and independence, and diversity. The Board is of the view that the current size and composition suffice to enable the Board to operate effectively, and to meet the current and future needs of the Company.

III. Remuneration

Directors' and Senior Management Remuneration

The Board does not have a Remuneration Committee ("RC") to implement its policies and procedures on remuneration of the Directors and senior management staff. Instead, the Board itself undertakes this responsibility during the normal proceedings of the meetings of Directors.

The Board has established remuneration policies and procedures that are formalised in the Board Charter. These are generally disclosed in the abridged Board Charter on the Company's website. Broadly, these encompass:

(a) periodic review of the Directors' fees;

(b) 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 the Board Committee; and
  - fee for chairmanship of Board Committee;

(c) determination of remuneration packages of Executive Directors based on market trends and the performance of the Group; and

(d) abstention of Directors in determining his/her own fees or remuneration package.

The Board periodically reviews the remuneration policies and procedures, with a view to ensure that the Group's remuneration policies remain competitive and attractive to retain Directors and senior management staff of high calibre with the necessary skills and expertise required for effective management of the Group.

The details of the Directors' remuneration for the FY2019 are as follows:

RM'000

COMPANY

DIRECTORS	FEES	MEETING ALLOWANCE	SALARIES & BONUSES	TOTAL
Samuel Lim Syn Soo	54	–	672	726
Kenneth Tan Teoh Khoon	49	–	672	721
Tuan Haji Zakariah Bin Yet	55	9	–	64
Yong Chee Hou	54	9	–	63
Lim Mee Ing	54	9	–	63

GROUP

DIRECTORS	FEES	MEETING ALLOWANCE	SALARIES & BONUSES	TOTAL
Samuel Lim Syn Soo	144	–	672	816
Kenneth Tan Teoh Khoon	59	–	672	731
Tuan Haji Zakariah Bin Yet	65	9	–	74
Yong Chee Hou	64	9	–	73
Lim Mee Ing	54	9	–	63

Details on named basis of the top 5 management staff's remuneration component in bands of RM50,000 have not been made as the Board views such disclosure to be commercially unviable in this very competitive industry for high calibre staff. Additionally, the Board is of the view that disclosing such sensitive information may compromise retainability of good management staff, which in turn will jeopardise the Group's successful management and operations of its businesses. Nonetheless, the aggregate amount of the remuneration paid to the top 5 management staff (excluding the Executive Directors) of the Group is about RM3.5 million.

PRINCIPLE B: EFFECTIVE AUDIT AND RISK MANAGEMENT

I. Audit Committee

The Audit Committee ("AC") is tasked by the Board to oversee the financial reporting process. This includes assessing the suitability, objectivity and independence of the external auditor, and being able to independently challenge and ask probing questions on the Company's financial reporting process, internal controls, risk management and governance.

The composition of the AC has been duly considered by the Board to ensure that each member of the AC is financially literate, and possess the necessary skills and experience to discharge their respective duties. The profiles of the AC, as well as the continuing professional development programmes that the AC members have attended during the FY2019 are provided under the section of "Board of Directors" of this Annual Report and the foregoing paragraph "Directors' Training – Continuing Education Programmes" respectively. A summary of the activities of the AC are set out in the "Audit Committee's Report" section of this Annual Report.

The Board has assessed the effectiveness of the AC in performing its duties pursuant to its terms of reference, and is satisfied that the AC has discharged its duties accordingly.

External Auditors

The Company has always maintained transparent relations 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 external auditors. The role of the AC in relation to the external auditor is described in the "Audit Committee's Report" section of this Annual Report.

In considering the suitability, objectivity and independence of the external auditors, the AC, in consultation with the Board, had established a questionnaire form setting out the criterions that would be employed for the assessment. In addition, the AC has also obtained a written assurance from the external auditor, Messrs Ernst & Young ("EY"), confirming their independence throughout the conduct of the audit engagement.

The AC had reviewed the suitability, objectivity and independence of EY based on the above mentioned criterion, and had recommended their re-appointment as external auditors of the Company for the financial year ending 31 July 2020. The Board, having considered the AC's recommendation, is satisfied with the competency, performance and independence of EY, and recommend their re-appointment as the Company's external auditors for shareholders' approval at the forthcoming AGM.

II. Risk Management and Internal Control Framework

The Board has in place a risk management and internal control framework, which the Board reviews to ensure its effectiveness, adequacy and integrity.

The Board oversees the Group's overall risk management and internal control systems, while the business unit management identifies and assess 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 AC also supports the Board in this role by overseeing the internal control systems, financials and governance matters.

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 and internal control system.

Internal Audit

The Board recognises the importance of sound internal control for good corporate governance. As such, an internal audit function is independently undertaken to ensure that the work is conducted with impartiality, proficiency and due professional care.

The internal audit function of the Group was outsourced to Deloitte Enterprise Risk Services Sdn Bhd ("Deloitte"). Deloitte has conducted the necessary objectivity and independence checks, and has confirmed to the Board that its engagement is free from any relationships or conflicts of interests, which could impair its objectivity and independence. The internal audit work was performed by 7 professional internal auditors from Deloitte.

The responsibilities of the internal auditors included 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.

Details of the work carried out by the internal auditors in the FY2019 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.

Financial Reporting

The Board is required to prepare financial statements 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 Company and of the Group, and of the results and cash flows of the Company and of the Group for a financial year under review.

In preparing the financial statements, the Directors have:

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

The Directors have ensured that the Company and its group companies have kept proper accounting and other records which disclose with reasonable accuracy the financial position of the Company and of the Group, and which would enable them to ensure that the financial statements are drawn up according to applicable laws, regulations and standards.

The Directors have also taken such steps as are reasonably necessary to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

PRINCIPLE C – INTEGRITY IN CORPORATE REPORTING AND MEANINGFUL RELATIONSHIP WITH STAKEHOLDERS

I. Corporate Disclosure and Stakeholders Communication

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

Additionally, the Board also provides the shareholders with an opportunity to interact with the Board at the Company's general meetings to clarify any questions that they may have, and to gain better understanding of the Group's business affairs and performance. Throughout the year, the Executive Directors, who are responsible for investor relations of the Company, also meet with analysts and institutional investors to keep them abreast of the Group's strategies, performance and activities.

The Company's website also serves as a platform for shareholders and members of the public in general to gain access to updated information about the Group.

II. Conduct of General Meetings

AGMs are the principal forum for dialogue with shareholders. Notice of AGMs and Annual Reports are typically sent to shareholders at least 21 days before the date of the annual general meeting as per the requirements of the Companies Act 2016, and the MMLR. 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 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.

Notwithstanding the above, in line with the MCCG, the notice of this 48th AGM was sent out 25 October 2019 which is at least 28 days prior to the AGM.

The Board always encourages shareholders' active participation at such meetings. Members of the Board and the external auditors are also present to provide meaningful answers to questions raised during the meetings.

In addition, Extraordinary General Meetings ("EGMs") are held as and when needed to obtain shareholders' approval on certain business or corporate proposals. Adequate notice of the EGM, together with comprehensive details and rationale for the proposals for which shareholders' approval are being sought, will be sent out to shareholders in accordance with the regulatory requirements.

In support of equitable and greater transparency in the voting process, all resolutions proposed at the Company's general meetings are put to the vote through an electronic poll voting system. Whilst the Articles of Association does not provide for voting in absentia, a member who is unable to attend the general meeting is allowed to appoint a proxy to participate and vote at such meetings on his or her behalf.

This Statement is made in accordance with the resolution of the Board of Directors dated 19 September 2019.

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 ("Statement") 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 Part II of Principle B, Intended Outcome 9.0, Practices 9.1 and 9.2 read together with Guidance 9.1 and 9.2 of the Malaysian Code on Corporate Governance 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 2019.

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 recognises that the system of risk management and internal control 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:

- Business unit management – to identify, assess and implement suitable risk management and internal control systems;

- Executive Directors, assisted by corporate management, oversee and endorse risk management and internal control system implementation by business unit management; and

- Audit Committee – for oversight over internal control systems, financials and governance matters to provide reasonable assurance that adverse impact arising from a foreseeable future event or situation on the Group's objectives is mitigated and managed.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT FRAMEWORK

The Group has in place an Enterprise Risk Management ("ERM") framework (based on an internationally recognised risk management 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 risk management has been effective to keep it within tolerable levels.

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.

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.

STATEMENT ON RISK MANAGEMENT
AND INTERNAL CONTROL

REVIEW OF THIS STATEMENT

The external auditors had reviewed this Statement pursuant to Audit and Assurance Practice Guide 3 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.

The external auditors have performed limited assurance procedures on this Statement in accordance with *Malaysian Approved Standard on Assurance Engagements, ISAE 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and Audit and Assurance Practice Guide 3, Guidance for Auditors on Engagements to Report on this Statement included in the Annual Report*.

They have reported to the Board that nothing has come to their attention that causes them to believe this Statement intended to be included in the Annual Report is not prepared, in all material respects, in accordance with the disclosures required by Paragraphs 41 and 42 of *Statement on Risk Management and Internal Control: Guidelines for Directors of Listed Issuers* nor is this Statement factually inaccurate.

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 has reviewed the risk management and internal control framework and control procedures to ensure continual effectiveness and adequacy of the system of risk management and internal control of 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 adverse impact that would require disclosure in the Group's annual report.

This Statement is made in accordance with the resolution of the Board of Directors dated 19 September 2019.

ABOUT KESM INDUSTRIES BERHAD

Listed on the Main Market of Bursa Malaysia, KESM Industries Berhad and its subsidiaries ("KESMI") provide burn-in, testing and electronic manufacturing services to the semiconductor industry. Being the first company of its kind to be awarded the ISO 9001 certification, we constantly strive to achieve excellence in providing services to our customers.

ABOUT THE REPORT

This is KESMI's second annual Sustainability Report for the period of 1 August 2018 to 31 July 2019 ("FY2019"). Where applicable, one year of historical performance data is also included for comparative purposes.

This report was prepared in accordance with the Global Reporting Initiative ("GRI") Standards – 'Core' option. The GRI Sustainability Reporting Standards have been deemed most suitable for KESMI's sustainability reporting framework as the standards are recognised globally and are the most widely adopted global standards for sustainability reporting.

The scope of this report covers our Malaysia-based KESMI entities[1] and has been expanded this year to include our operation in Tianjin, China[2]. These entities provide burn-in and testing services for semiconductors, and electronic manufacturing services.

External assurance has not been sought for this report, however KESMI may consider doing so as the sustainability reporting process matures over time.

STAKEHOLDER ENGAGEMENT

At KESMI, we understand that regularly engaging with stakeholders through multiple platforms is essential in understanding their key concerns and being responsive to their expectations. Table 1 below highlights our approach towards engaging key stakeholders who are most impacted by or impacting our business.

Table 1: KESMI's Approach towards Stakeholder Engagement

Stakeholder group	Stakeholders' expectations	Stakeholder management/ Response to stakeholder expectations	Engagement platforms	Frequency of engagement
Shareholders 	• KESMI's financial health and industry reputation	• Provide regular and timely updates about KESMI's performance to enable shareholders to make informed investment decisions	• Press releases • Announcements • Media conference • Annual report • Annual General Meeting	• Periodic • Quarterly • Annual • Annual • Annual
Customers 	• Service quality • Timely delivery	• ISO 9001 certification • ISO/TS 16949 certification	• Industry forums • Customer satisfaction surveys • Customer visits to our plants	• Once every one to two years • Periodic • As necessary

1 KESM Industries Berhad, KESP Sdn. Bhd. and KESM Test (M) Sdn. Bhd.
2 KESM Industries (Tianjin) Co., Ltd

Stakeholder group	Stakeholders' expectations	Stakeholder management/ Response to stakeholder expectations	Engagement platforms	Frequency of engagement
Employees and outsourced workers	• Fair employment and well-being • Training and development • Occupational health and safety	• Implement non-discriminatory Human Resources (HR) policies • Provide relevant trainings (safety and job specific) • Provide deserving remuneration, welfare and benefits • Compliance to Responsible Business Alliance (RBA)'s requirements[3]	• Electronic updates and newsletters • Trainings • Annual performance appraisals • Company events and staff get-togethers	• Periodic • Periodic • Annual • Periodic
Contractors and suppliers	• Business opportunities • Feedback on performance	• Conduct fair suppliers' screening process • Conduct regular suppliers' evaluation process	• Project tenders • Supplier evaluation meetings	• As necessary • Periodic
Regulators	• Compliance to regulatory requirements	• Keeping abreast with the latest regulatory requirements	• Statutory reporting • On-site inspections	• Periodic • As necessary
Local Community	• Corporate Social Responsibility (CSR) initiatives • Employment opportunities	• Participate in CSR activities • Provide employment opportunities through our business	• CSR programmes • Teaming with local technical institutions for job training	• Periodic • Annual

[3] Responsible Business Alliance (RBA) is a nonprofit comprising of electronics, retail, auto and toy companies committed to supporting the rights and well-being of workers and communities worldwide affected by the global electronics supply chain.

MATERIALITY ASSESSMENT

KESMI focuses on economic, environmental, social and governance ("EESG") matters that critically affect our business operations and are of interest to both internal and external stakeholders. Following the first formal materiality assessment exercise in July 2017, five material matters were identified for KESMI. Based on our review, these matters remain relevant in this reporting period.

Figure 1: KESMI's Materiality Assessment Process

1. IDENTIFICATION
A preliminary list of potential sustainability matters were identified through review of KESMI's business strategy, environment, concerns, market landscape and leading reporters' practices.

2. PRIORITISATION
These sustainability matters were prioritised through an unbiased and anonymous voting exercise, taking into account:
(i) importance to KESMI's business, and
(ii) significance and influence to external stakeholders.

3. VALIDATION
The results of the exercise were mapped into a materiality matrix and approved by the Board.

4. REVIEW
In FY2019, a review of the material matters was conducted. It was concluded that the five sustainability matters remained relevant for reporting, with an additional disclosure under Economic Performance.

Figure 2: KESMI's Materiality Matrix

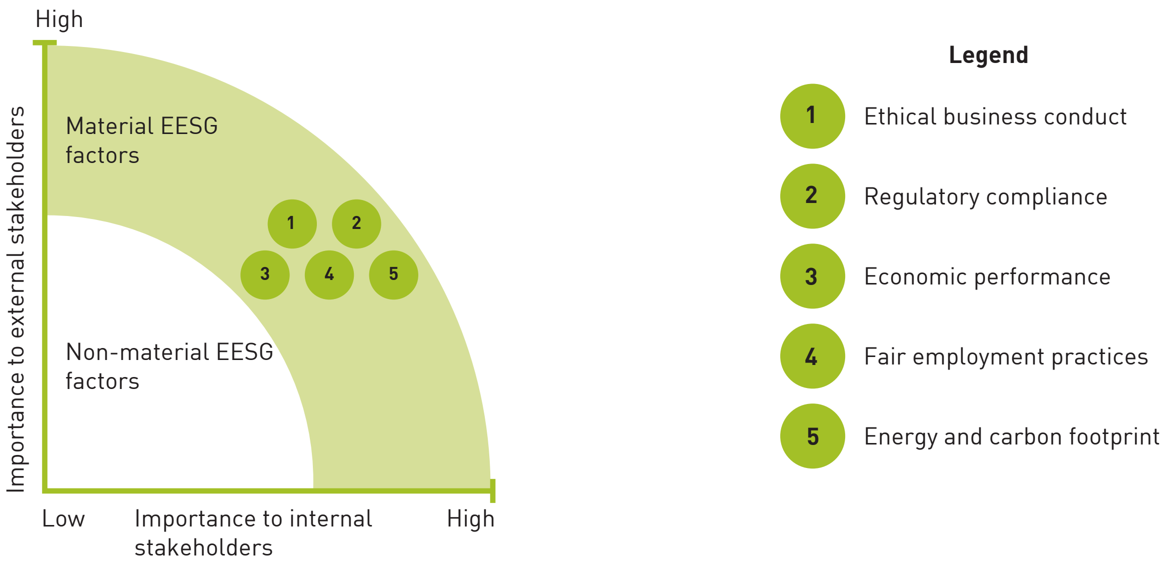


Table 2: KESMI's Material Sustainability Matters and Corresponding GRI Topics

No.	Material Sustainability Matters (in no particular order of importance)	Definition	GRI Topics
1	Ethical business conduct	Adherence to responsible business policies in terms of anti-corruption, anti-competitive behaviour and anti-trust	• GRI 205: Anti-Corruption
2	Regulatory compliance	Compliance with regulatory requirements, including but not limited to laws on the environment, labour, and health and safety	• GRI 307: Environmental Compliance • GRI 419: Socioeconomic Compliance
3	Economic performance	Economic value contribution Sustain economic performance through responsible supply chain management	• GRI 201: Economic Performance • GRI 204: Procurement Practices
4	Fair employment practices	Equal opportunities and treatment for all employees and workers	• GRI 401: Employment • GRI 406: Non-Discrimination
5	Energy and carbon footprint	Efficient use of energy to minimise the carbon footprint arising from our operations	• GRI 302: Energy • GRI 305: Emissions

SUSTAINABILITY GOVERNANCE AT KESMI

Figure 3: KESMI's Sustainability Governance Structure

At KESMI, directives for sustainability programmes are reviewed and approved by the Board and Executive Directors. This sets the tone for the sustainability agenda at the top. Local Management are tasked to implement and oversee these programmes while Heads of Departments regularly collect data and information on sustainability-related performance metrics.

Subsequently, information on KESMI's sustainability progress is presented to senior management and the Board for review and calibration of existing sustainability policies and practices.

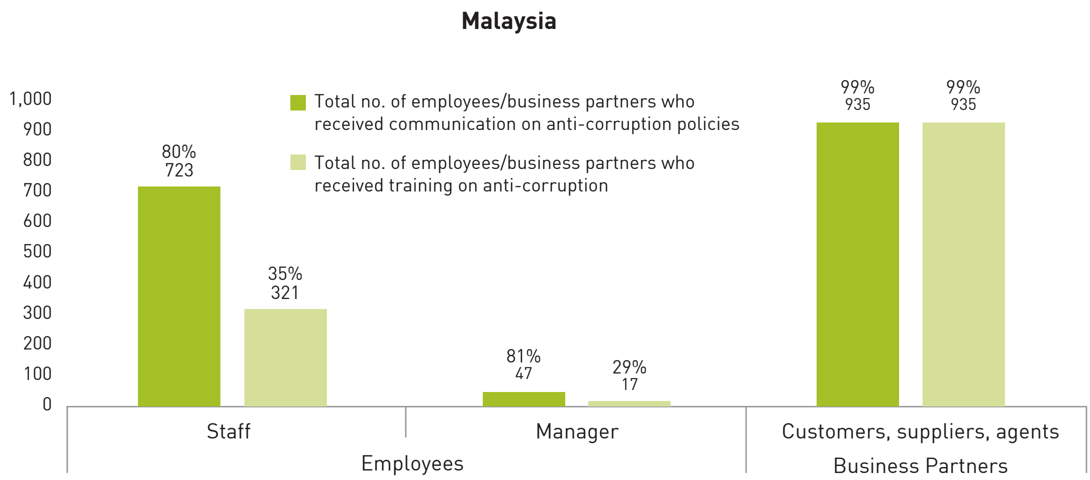
ENSURING THE HIGHEST STANDARDS OF ETHICAL BUSINESS CONDUCT

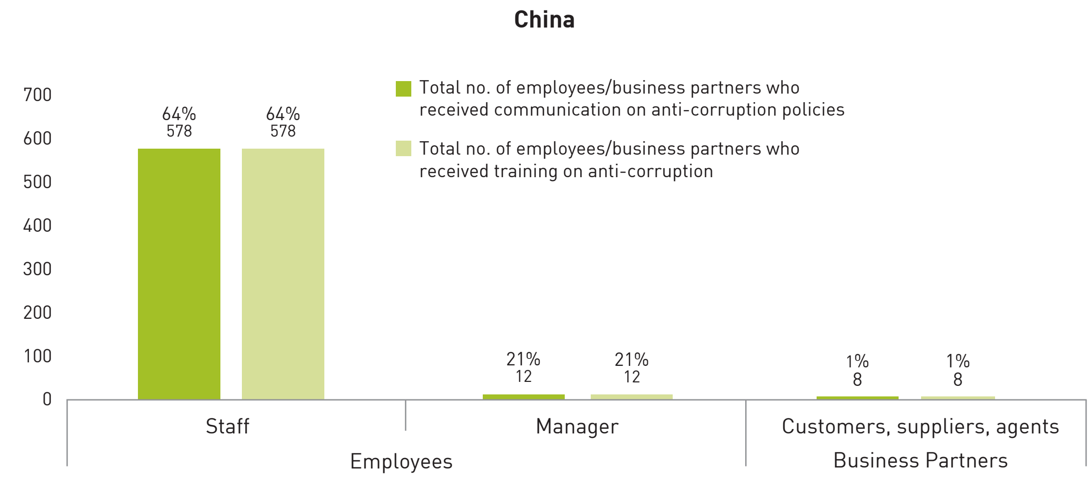
KESMI upholds the highest standards of ethics throughout its operations to sustain honest interactions between personal and professional parties, and to competently manage conflicts of interests.

KESMI implements policies on ethical business conduct matters and has a zero-tolerance approach towards corruption and unethical business practices. The policies awareness training is provided to all employees across the organisation to ensure they are aware of the company's stance on the matter. Taking reference from RBA Code of Conduct (the "Code"), KESMI has in place a Business Ethics Policy that sets out the values, principles, standards and norms of behaviour expected of our employees and in business dealings. All newly hired employees undergo mandatory training as part of our orientation module, which briefs them on the Code's stringent requirements.

Anti-corruption policies and procedures have been communicated to our Board members, employees and business partners, while also receiving the necessary training (Figure 4).

Figure 4: Number and percentage of employees and business partners that KESMI's anti-corruption policies and procedures have been communicated to and receiving training in FY2019





01	Whistleblower Policy	The policy applies across all our Plants and overseen by our Plant Manager with the following objectives: • To encourage employees to confidently raise genuine concerns about possible improprieties • Provide ways for employees to raise concerns and receive feedback on any actions taken as a result • Reassure employees that they will be protected from possible reprisals or victimisation
02	Code of Conduct	The policy outlines the principles that ensure the humane treatment of all employees, respect for the environment and its welfare, and operates in full compliance with applicable laws, rules and regulations of the countries in which we operate.
03	Grievance Handling Policy	This Grievance Handling Policy was established for problems to be solved at the lowest corporate level possible, in the interests of industrial efficiency and stability in performance. Grievances include any violations or threats on fair and humane treatment such as prohibition of sexual harassment, abuse (mental, physical or verbal), coercion, corporal punishment, etc.
04	Business Ethics Policy	Our anti-corruption and anti-bribery policies are encapsulated within our Business Ethics Policy. • The company disallows any employee to be associated with illegal cartel activities, illicit price-fixing, deception and undesirable social behaviour, customers or vendors that offer rebates, commissions, and other forms of illegal remuneration. • Employees are required to fully disclose any conflicts of interest. Employees are also disallowed from giving or accepting any gifts, which might improperly influence the normal business relationship with any supplier or customer. All company business dealings are based on "fair deal" basis. All employees shall refrain from providing or accepting bribe and kick-backs.
05	Purchasing Policy	The Purchasing Policy sets clear guidelines on maintaining ethical relations with vendors and suppliers while acting with integrity throughout all procedures related to the purchasing activities of the company.

All employees have access to multiple resources to convey their grievances and report unethical behaviour, such as a phone helpline and a designated email address. In certain cases, employees are encouraged to approach and consult with their respective managers and superiors in-charge, or the Human Resources manager. We will enforce strict disciplinary action against any violation of the Business Ethics Policy, to the extent of termination of employment.

As a testament to our efforts at maintaining high standards of corporate governance, there were zero cases of corruption reported in FY2019. This is consistent with our record of having reported zero incidents or cases associated with corruption in FY2018 and FY2017.

Focus Area	Perpetual Target	FY2019 Performance
Ethical Business Conduct	0 confirmed cases of corruption within KESMI	Achieved ✓

STRICT COMPLIANCE WITH ALL APPLICABLE LAWS AND REGULATIONS

Guided by our Code, we are fully committed to ensuring that compliance to all applicable laws and regulations is at the core of KESMI's operations. Our tone on regulatory compliance is clear and set from the top, taking a zero-tolerance approach to fraud, corruption, bribery and violation of any local laws and regulations in Malaysia and China.

KESMI aims to keep abreast of the latest regulatory requirements in each country to ensure 100% compliance with all applicable laws and regulations, which we have continued to achieve in FY2019.

Focus Area	Perpetual Target	FY2019 Performance
Regulatory Compliance	0 confirmed cases of non-compliance with environmental laws and regulations	Achieved ✓
	0 confirmed cases of non-compliance with socioeconomic laws and regulations	Achieved ✓

SUSTAIN ECONOMIC PERFORMANCE THROUGH RESPONSIBLE SUPPLY CHAIN MANAGEMENT

KESMI recognises that responsible supply chain management is key to the company's economic performance and competitiveness. This allows us to reduce business disruption risks, ensure consistent quality and improve cost-effectiveness as well as production efficiency in line with our mission statement to ensure that our customers' specifications and expectations are always met.

With close engagement with our suppliers, we are also able to reinforce our commitment to the environment and local communities where we operate. Towards this end, we prioritise working with local suppliers, which has the benefits of enhancing sourcing efficiency due to shorter lead time, while also bringing positive impacts to local economies through economic development and job opportunities.

Our robust Three-Step Supply Chain Management Process details our procedures in supplier management.

Figure 5: KESMI's Three-Step Supply Chain Management Process

1 Internal Requisition ("IR")

The first step of our Supply Chain Management Process is the IR process, which is facilitated by an online system that maintains a clear audit trail of all requisition cases. Once the IR is raised, an approval process is triggered before vendor sourcing commences and a Purchase Order is raised.

2 Supplier Selection/Vendor Qualification Procedure

KESMI adheres to stringent supplier selection criteria to manage our supply chain impacts on the economy, society and environment.

The suppliers need to acknowledge and accept KESMI's Supplier Code of Conduct before engagement. Following aspects are covered in the Code:

i. Compliance with all applicable laws and regulations
ii. Prevention of, and intolerance for, corruption and all forms of bribery
iii. Prohibition of child labour
iv. Safeguarding the health and safety of employees
v. Upholding of human rights

Our suppliers are also expected to eliminate the use of conflict mineral and responsible for performing due diligence on their supply chain as appropriate to ensure the compliance.

All suppliers are required to conform with the ISO 9001:2008 standard or higher quality management systems.

3 Supplier Evaluation

Our suppliers are regularly assessed to allow KESMI to improve or maintain our quality of services and drive customer satisfaction. Where the concerned supplier's performance is unsatisfactory, feedback is provided to the supplier to help them identify any scope for improvement. Should the supplier continue to be negligent in improving their performance, we may take stern actions, including the suspension of contracts.

Reinforcing our commitment for purchasing from local suppliers and contractors, KESMI has consistently maintained that at least 50% of its purchases are sourced locally. In FY2017, the percentage of purchases sourced from locally registered companies was 74%, which increased to 80% in FY2018. In FY2019, we have upheld this commitment of supporting local businesses, sourcing 69% of purchases from locally registered companies.

Focus Area	Perpetual Target	FY2019 Performance
Responsible Supply Chain Management	At least 50% of all purchases are sourced locally[4]	Achieved ✓

[4] Local purchases refer to purchases made (except for production machineries) from locally registered companies, which supply trade and non-trade goods and services.

CREATING AND DELIVERING DIRECT ECONOMIC VALUE

In FY2019, KESMI generated more than RM300 million in terms of total revenue. This is distributed across all our various stakeholders – shareholders, suppliers and contractors, employees and outsourced workers, capital providers and governments, sharing economic value across our value chain. Faced with economic uncertainties arising from the new global political order, KESMI's revenue declined from the previous year, resulting in lower economic value being retained for FY2019.

Table 3: Economic Value Generated, Distributed and Retained in FY2019 and FY2018[5]

Economic Value Generated (RM'million)	FY2019	FY2018
Revenue	307	350
Economic Value Distributed (RM'million)		
Operating costs	(124)	(118)
Employee wages and benefits	(104)	(113)
Payments to providers of capital	(12)	(9)
Payments to governments (taxes)	(4)	(5)
Economic Value Retained (RM'million)	**63**	**105**

Further details on our economic performance can be found on pages 63 and 68 to 69.

BUILDING A STRONG WORKFORCE & FAIR WORKPLACE

KESMI'S EMPLOYEE & WORKER PROFILE

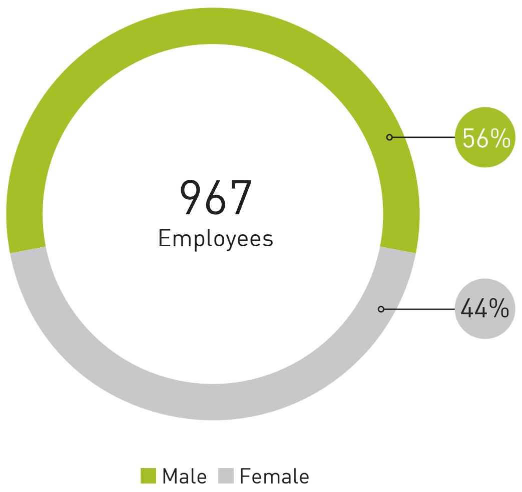
In FY2019, we were supported by a total of 967 employees and 1,347 workers. These workers comprise outsourced operators directly involved in production activities, interns and suppliers.

Over 90% of our employees are employed under permanent contract and all employed on a full-time basis, enabling their professional development and growth of their career with us. We have maintained our gender-diverse identity as a company, with a well-balanced ratio of male and female employees in our organisation for FY2019. Moreover, over 77% of our employees are People's Republic of China ("PRC") nationals and Malaysians, in line with our commitment to invest in, and develop local economies. The following charts show our employee demographics by gender and region[6], as well as our worker demographics by type.

[5] FY2018 figures include all companies within KESMI.

[6] KESMI's employees are grouped under the employment categories of "direct labour", "exempt", "non-exempt" and "manager". Exempt employees refer to foreign employees who are eligible to perform certain short-term work activities in China and Malaysia. Non-exempt employees refer to those entitled for overtime work.

Figure 6: KESMI's Employee Demographics by Gender and Region in FY2019



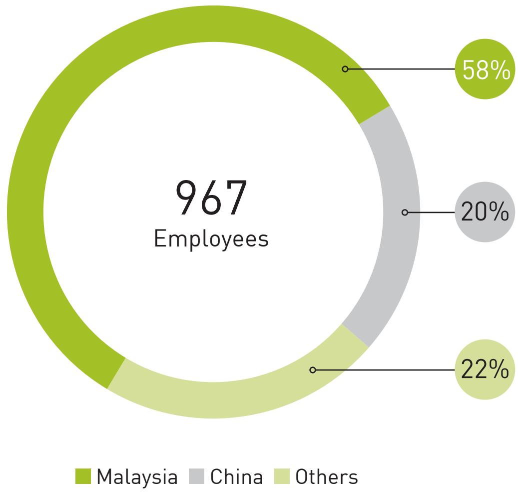
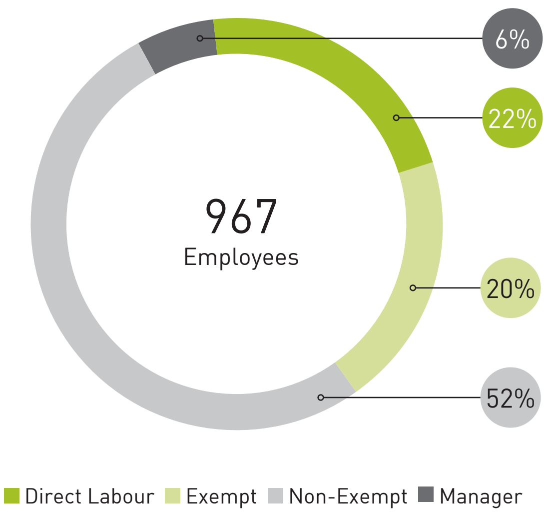
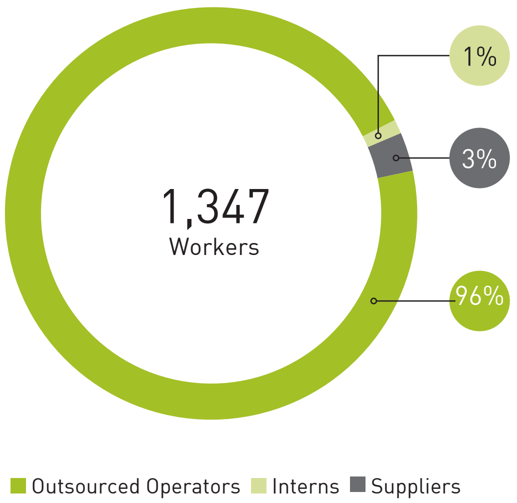


Figure 7: KESMI's Employee and Worker Demographics in FY2019





In FY2019, our new hires stood at 199 employees, a 58% decrease from FY2018 and saw a turnover of 296 employees, a 39% decrease from the FY2018 turnover figure. This reflects the strong trust placed in us by our employees and is a testament to our fair employment practices.

Figure 8: KESMI's Hires by Gender and Age Group in FY2019

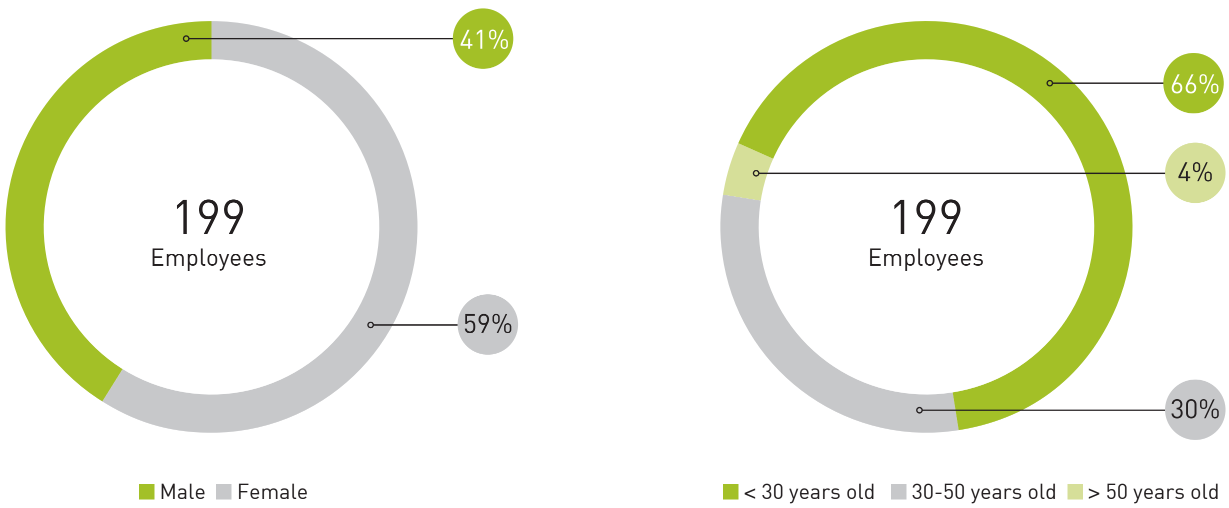
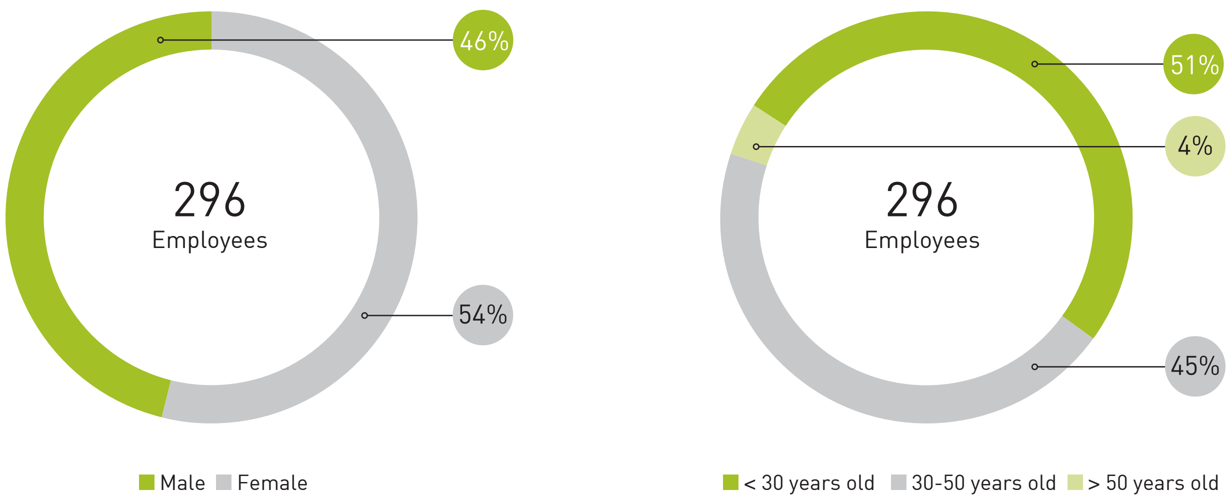


Figure 9: KESMI's Turnover by Gender and Age Group in FY2019



FAIR EMPLOYMENT PRACTICES

KESMI sees its people as its greatest asset. We strive to provide equal opportunities for all employees in an environment that enables them to develop professionally and promotes their well-being.

At KESMI, the suite of policies overseen by the Human Resources department help ensure the fair employment and well-being of our employees and workers. These detailed policies also assure our employees and workers of the necessary grievance mechanisms in place.

Table 4: KESMI's Policies on "Fair Employment Practices"

Name of Policy	Policy Description
Recruitment and Selection Policy	Provision of equal opportunities for all terms and conditions of employment, including but not limited to recruitment, selection and placement of all qualified applicants and employees, without any discrimination based on race, colour, religion, gender, age, sexual orientation, gender identity and expression, ethnicity or national origin, covered veteran status, protected genetic information, disability, pregnancy, political affiliation, union membership and marital status.
Grievance Procedures/ Mechanism	Employees are encouraged to report their grievances without fear of reprisal or retaliation should they feel unfairly treated. The grievance mechanism can be initiated through a telephone, text, fax, suggestion boxes and e-mail. Our foreign workers can submit their grievance in their native language to avoid miscommunication and encourage them to speak up. The HR department will appoint a translator to assist in collecting information, conducting investigations and providing solutions.
Labour & Human Rights Standards	To make a statement of our corporate social responsibility (CSR) commitment and compliance to the Code. KESMI is committed to ensure that labour and human rights practices are incorporated into our business functions. We respect diversity, non-discrimination and freedom of expression among our employees. We constantly aim to provide a safe, healthy and conducive environment for our employees, customers, vendors and shareholders as part of our business strategy and operating initiatives. This policy is also available in Mandarin Chinese for the ease of understanding and benefit of employees at our Tianjin facility.
Benefits Policy	In its effort to create a productive and encouraging working environment for all employees, KESMI has in place a Benefits Policy. This policy details all the benefits allotted to our employees: medical benefits, public holidays, service awards, annual salary review, gifts on occasions, etc.

KESMI is committed to upholding human rights and responsible labour practices, by advocating diversity, non-discrimination and compliance to all applicable health and safety laws and regulations. This commitment applies not only to our employees, but also outsourced workers.

To ensure the fair and timely payment of wages to our foreign workers, approximately 3% of pay slips addressed to outsourced workers employed at each of our suppliers' or contractors' companies are audited by KESMI on a quarterly basis. On detecting any inconsistencies, these companies are required to repay the outstanding wage amounts to their respective workers in the subsequent payroll cycle.

The HR department at KESMI also conducts regular dialogue sessions to provide our employees with a platform to freely convey their grievances, concerns, feedback and suggestions. KESMI's grievance mechanism has been outlined in Figure 10.

Figure 10: KESMI's Five-Step Employee Grievance Mechanism

STEP 1

The concerned employee submits an Employee Grievance Form, to his/her supervisor. For complaints or issues pertaining to the employee's supervisor, the employee may write directly to the supervisor's Manager.

STEP 2

The employee may bring the issue to the notice of the supervisor's Manager (in general, the Head of Department) if the employee's supervisor fails to act upon the complaint or fails to provide a solution that is acceptable to the employee within two days.

STEP 3

If the Manager responsible fails to take the appropriate measures within two days and the employee is yet unsatisfied with the proposed solution, the employee may further appeal to the HR Manager.

STEP 4

If the HR Manager fails to take the appropriate measures within two days and the employee is yet unsatisfied with the proposed solution, the employee may then appeal to the Division/Plant Manager.

STEP 5

Having exhausted all the previously mentioned avenues for reporting and still unsatisfied with any proposed solution, the employee is entitled to raise the issue to the CEO, Chairman or the Responsible Business Alliance Compliance Office representative.

As a result of our fair and inclusive employment practices as well as continuous employee engagement, there were zero complaints from our employees to the regulatory authorities on unfair employment practices within our organisation.

Focus Area	Perpetual Target	FY2019 Performance
Fair employment practices	0 complaints from employees to regulatory authorities pertaining to unfair employment practices	Achieved ✓

Moving ahead, we aim to maintain this record by keeping our policies updated and relevant.

PROTECTING THE ENVIRONMENT

KESMI aims to nurture a better environment and contribute to the national targets for the environment in the countries we operate in by optimising energy consumption and reducing our carbon footprint. Electricity is our main source of energy, and is used for our business operations such as manufacturing operations, lighting, air-conditioning and elevators.

Towards this end, our Environmental Management System 2000 Policy covers all plants within one of our operating entities in Malaysia, while other operating entities in Malaysia and China are each guided by two policies: (1) Energy Efficient Management Policy, which provides guidelines on maintaining and improving the management of electrical energy across our plants and (2) Energy Policy, which covers all buildings, processes and operations. This includes a commitment to reduce our total electrical energy consumption yearly, embark on cost-effective energy efficiency improvements and retrofits, as well as conduct awareness campaigns and training programmes for staff.

While the Tianjin pilot Emission Trading System that is currently in force does not yet cover the semiconductor and electronics manufacturing industry, we are committed to achieving national reduction targets by consuming energy efficiently and in line with the objectives of our Policy.

In FY2019, we consumed 86.2 GWh of electricity, more than our consumption in FY2018 due to the inclusion of a new entity in scope. However, when considering similar reporting scope ("Like-for-Like", i.e. inclusion of Tianjin operations), there was a 5.7% decrease in energy consumption from FY2018 to FY2019. A corresponding trend was observed in our Scope 2 emissions. This significant decline in our consumption and subsequently, our emissions, can be attributed to our effective energy-saving initiatives which are in progress of implementation.

Figure 11: KESMI's Electrical Energy Consumption

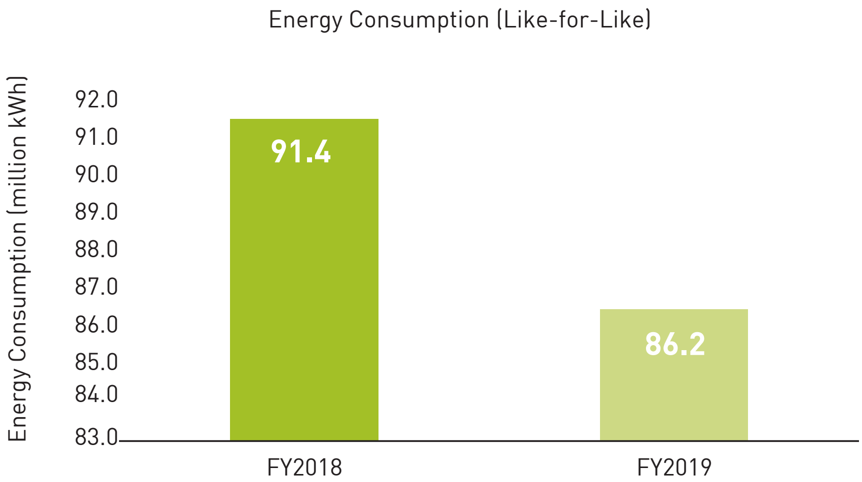
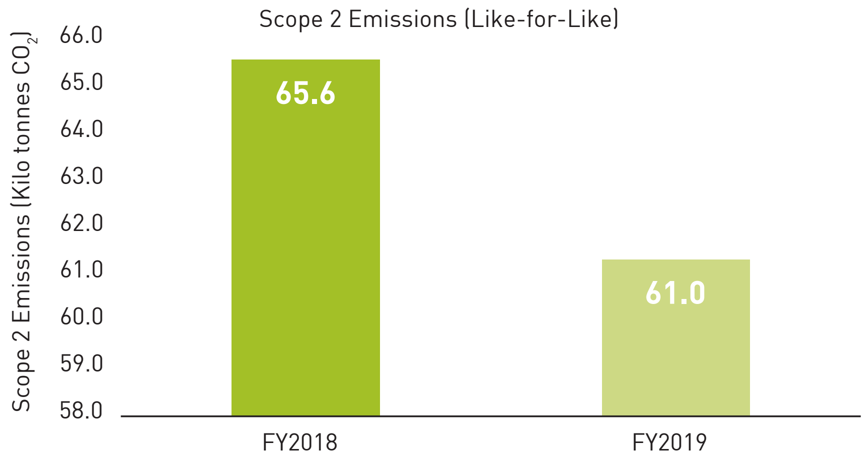


Figure 12: KESMI's Scope 2 (Indirect) Emissions[7]



In FY2019, we optimised the cooling capacity required in certain sections of our Malaysia operations by adjusting the cooling water flow rate, allowing us to shut down two cooling fans. This resulted in estimated energy savings of 3,960 kWh per month.

We also changed the current T8 fluorescent lights to LED lighting tubes in Tianjin in the pursuit of optimising energy and reducing our carbon footprint. With the implementation of LED lighting, we expect savings in 114,245 kWh of power consumption per year and cost savings of RMB83,567 per year.

Focus Area	Perpetual Target	FY2019 Performance
Energy and carbon footprint	2% reduction in year-on-year energy consumption	Achieved 5.7% reduction ✓

Other initiatives we have implemented include upgrading to newer, more energy-efficient models of compressors for our air-conditioning units as well as installation of digital temperature controllers. Moving forward, we aim to further improve our energy performance by specifically increasing the desiccant dryer cycle duration at our plants. KESMI management is in the process of organising a feasibility study to identify opportunities through which we can further optimise our energy consumption and efficiency.

[7] The Electricity Grid Emissions Factors ("GEF") used in the calculation of Scope 2 Emissions for FY2018 and FY2019 have been obtained from the Institute for Global Environmental Strategies ("IGES") 2019 database. The Scope 2 Emissions figure for FY2018 has been revised due to an update in the Malaysia GEF (0.653 $kgCO_2/kWh$). The FY2019 figures include KESMI's China operations with the North China GEF (for Tianjin) being 1.042 $kgCO_2/kWh$.

GRI CONTENT INDEX

Disclosure		Reference(s) or Reasons for Omission
General Disclosures		
Organisational Profile		
102-1	Name of the organisation	About KESM Industries Berhad (page 33)
102-2	Activities, brands, products, and services	Management Discussion and Analysis (page 5)
102-3	Location of headquarters	Malaysia
102-4	Location of operations	Management Discussion and Analysis (page 5)
102-5	Ownership and legal form	Management Discussion and Analysis (page 5); Annual Report (page 70)
102-6	Markets served	About the Report (page 33)
102-7	Scale of the organisation	Management Discussion and Analysis (page 5)
102-8	Information on employee and other workers	Building a Strong Workforce & Fair Workplace (pages 41-43)
102-9	Supply chain	Sustain Economic Performance Through Responsible Supply Chain Management (pages 39-40)
102-10	Significant changes to the organisation and its supply chain	There have been no significant changes to our supply chain.
102-11	Precautionary principle and approach	Annual Report (pages 29-32). KESMI does not specifically address the principles of the precautionary approach. However, our management is risk-based.
102-12	External initiatives	We take references from Responsible Business Alliance's Code of Conduct
102-13	Membership of associations	Malaysian Employers Federation; The Free Trade Zone, Penang Companies' Association
Strategy		
102-14	Statement from senior decision-maker	CEO/Chairman message (pages 2-3)
Ethics and Integrity		
102-16	Values, principles, standards, and norms of behavior	Ensuring the Highest Standards of Ethical Business Conduct (pages 37-38)
Governance		
102-18	Governance structure	Sustainability governance at KESMI (page 36)

Disclosure		Reference(s) or Reasons for Omission
General Disclosures		
Stakeholder Engagement		
102-40	List of stakeholder groups	Stakeholder Engagement (pages 33-34)
102-41	Collective bargaining agreements	None of our employees are covered by collective bargaining agreements. Nonetheless, KESMI respects the rights of its employees to join or form a labour union.
102-42	Identifying and selecting stakeholders	Stakeholder Engagement (pages 33-34)
102-43	Approach to stakeholder engagement	Stakeholder Engagement (pages 33-34)
102-44	Key topics and concerns raised	Stakeholder Engagement (pages 33-34)
Reporting Practice		
102-45	Entities included in the consolidated financial statements	Annual Report (page 101)
102-46	Defining report content and topic boundaries	Materiality Assessment (pages 35-36)
102-47	List of material topics	Materiality Assessment (pages 35-36)
102-48	Restatements of information	Scope 2 emissions for FY2018 have been restated due to updates to national Grid Emission Factors.
102-49	Changes in reporting	Expansion of scope to include KESM Industries (Tianjin) Co., Ltd and inclusion of additional disclosure.
102-50	Reporting period	About the Report (page 33)
102-51	Date of most recent report (if any)	FY2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	sustainability@sunright.com
102-54	Claims of reporting in accordance with the GRI Standards	About the Report (page 33)
102-55	GRI content index	GRI Content Index (pages 47-50)
102-56	External assurance	About the Report (page 33)
Material Topic: Economic performance		
Management Approach		
103-1	Explanation of the material topic and its boundary	Sustain Economic Performance Through Responsible Supply Chain Management (pages 39-40)
103-2	The management approach and its components	Sustain Economic Performance Through Responsible Supply Chain Management (pages 39-40)
103-3	Evaluation of the management approach	Sustain Economic Performance Through Responsible Supply Chain Management (pages 39-40)

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Economic performance		
Economic Performance		
201-1	Direct economic value generated and distributed	Creating and Delivering Direct Economic Value (page 41)
Procurement Practices		
204-1	Proportion of spending on local suppliers	Sustain Economic Performance Through Responsible Supply Chain Management (pages 39-40)
Material Topic: Energy and carbon footprint		
Management Approach		
103-1	Explanation of the material topic and its boundary	Protecting the Environment (pages 45-46)
103-2	The management approach and its components	Protecting the Environment (pages 45-46)
103-3	Evaluation of the management approach	Protecting the Environment (pages 45-46)
Energy Consumption		
302-1	Energy consumption within the organisation	Protecting the Environment (pages 45-46)
Material Topic: Fair Employment Practices		
Management Approach		
103-1	Explanation of the material topic and its boundary	Fair Employment Practices (pages 44-45)
103-2	The management approach and its components	Fair Employment Practices (pages 44-45)
103-3	Evaluation of the management approach	Fair Employment Practices (pages 44-45)
Employment		
401-1	New employee hire and employee turnover	KESMI's Employee & Worker Profile (pages 41-43)
Non-discrimination		
406-1	Incidents of discrimination and corrective actions taken	Fair Employment Practices (pages 44-45)

Disclosure		Reference(s) or Reasons for Omission
Material Topic: Ethical business conduct		
Management Approach		
103-1	Explanation of the material topic and its boundary	Ensuring the Highest Standards of Ethical Business Conduct (pages 37-38)
103-2	The management approach and its components	Ensuring the Highest Standards of Ethical Business Conduct (pages 37-38)
103-3	Evaluation of the management approach	Ensuring the Highest Standards of Ethical Business Conduct (pages 37-38)
Anti-Corruption		
205-2	Communication and training about anti-corruption policies and procedures	Ensuring the Highest Standards of Ethical Business Conduct (pages 37-38)
205-3	Confirmed incidents of corruption and actions taken	Ensuring the Highest Standards of Ethical Business Conduct (pages 37-38)
Material Topic: Regulatory compliance		
Management Approach		
103-1	Explanation of the material topic and its boundary	Strict Compliance with All Applicable Laws and Regulations (page 39)
103-2	The management approach and its components	Strict Compliance with All Applicable Laws and Regulations (page 39)
103-3	Evaluation of the management approach	Strict Compliance with All Applicable Laws and Regulations (page 39)
Environmental Compliance		
307-1	Non-compliance with environmental laws and regulations	Strict Compliance with All Applicable Laws and Regulations (page 39)
Socioeconomic Compliance		
419-1	Non-compliance with laws and regulations in the social and economic area	Strict Compliance with All Applicable Laws and Regulations (page 39)

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 2019.

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 RM'000	Company RM'000
Profit net of tax	6,276	1,405

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 2018 as reported in the directors' report of that year:	
Final tax exempt dividend of 6 sen per ordinary share, on 43,014,500 ordinary shares, approved on 10 January 2019 and paid on 13 February 2019	2,581
In respect of the financial year ended 31 July 2019:	
Interim tax exempt dividend of 3 sen per ordinary share, on 43,014,500 ordinary shares, approved on 18 July 2019 and paid on 27 August 2019	1,290
	3,871

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2019, 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 2020.

DIRECTORS' REPORT

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*

* These directors are also directors of some of the Company's subsidiaries.

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 1.8.2018	**Acquired**	**Sold**	**At 31.7.2019**
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 remuneration received or due and receivable by the directors or the fixed salary of a full-time employee of the Company as shown in Note 8 and Note 21 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, the total amount of indemnity coverage given to directors and officers of the Company pursuant to Director and Officer liability insurance is RM20,000,000.

DIRECTORS' REPORT

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 end of the financial year.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 September 2019.

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 63 to 127 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 2019 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.

Signed on behalf of the Board in accordance with a resolution of the directors dated 19 September 2019.

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 63 to 127 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing this declaration to be true, and by virtue of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by
the abovenamed Kenneth Tan Teoh Khoon
at Kelana Jaya, Selangor on 19 September 2019

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 2019 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 63 to 127.

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 2019, 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 Code of Ethics for Professional Accountants (including International Independence Standards) ("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.

Key audit matters (continued)

Key audit matters in respect of the financial statements of the Group

Impairment assessment of property, plant and equipment

The carrying amount of the net assets of the Group exceeded its market capitalisation, indicating that the carrying amount of the Group's property, plant and equipment may be impaired. Accordingly, the Group is required to perform impairment assessment by comparing the carrying amount of the property, plant and equipment with its recoverable amount using the value in use ("VIU") method.

As at 31 July 2019, the Group's property, plant and equipment amounted to RM164,848,000, representing 36% of its total assets.

We considered this as an area of audit focus because the assessment process is based on assumptions that are judgemental.

In reviewing the impairment assessments based on VIU model, our procedures included, amongst others, the following procedures:

a) We evaluated the key assumptions used in the revenue growth, production cost and expenses by comparing them to the historical data, as well as current and future market or economic conditions;

b) We assessed the reasonableness of the discount rate, long term growth rate and the methodology used in deriving the present value of the cash flows, with the support of our valuation experts;

c) We performed sensitivity analysis on the key inputs of the cash flow; and

d) We assessed the appropriateness of the disclosures in the notes to the financial statements.

Recognition of deferred tax assets

As at 31 July 2019, the Group recognised deferred tax assets of RM3,692,000, which mainly relates to 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 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 other deductible temporary differences and unutilised business losses, accordingly we have identified this as a key audit matter.

Our audit procedures, included, amongst others, the following procedures:

a) We evaluated the 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;

b) We considered current and future market or economic conditions and management's assumption on the timing of utilisation of these allowances and other deductible temporary differences in the respective entities; and

c) We assessed the appropriateness of the disclosures in the notes to the financial statements.

Key audit matters (continued)

Key audit matter in respect of the financial statements of the Company

Impairment assessment of investment in subsidiaries

As at 31 July 2019, the Company's investment in subsidiaries amounted to RM79,250,000. The Company is required to estimate the recoverable amount of its investment in subsidiaries when there is indication that such investments may be impaired. For investment in subsidiaries with indicators of impairment, management performed an impairment assessment and estimated the recoverable amount of the investment in subsidiaries using value in use calculations.

The impairment assessment on investment in subsidiaries was significant to our audit as it involves management exercising judgement and making estimates about forecasts of future cash flows, including expectations for future market outlooks. Accordingly, we have identified this to be a key audit matter.

Our audit procedures, included amongst others, the following procedures:

a) We evaluated the key assumptions used in the revenue growth, production cost and expenses by comparing them to the historical data, as well as current and future market or economic conditions;

b) We assessed the reasonableness of the discount rate, long term growth rate and the methodology used in deriving the present value of the cash flows; and

c) Assessed the appropriateness of the disclosures in the notes 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, which we obtained prior to the date of this auditors' report, and the annual report, which is expected to be made available to us after the date of this auditors' report.

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 on the other information that we obtained prior to the date of this auditors' report, 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the Company and take appropriate action.

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.

Auditors' responsibilities for the audit of the financial statements (continued)

- 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.

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, is disclosed in Note 12 to the financial statements.

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

Lim Eng Hoe
No. 03403/12/2020 J
Chartered Accountant

Kuala Lumpur, Malaysia
19 September 2019

STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

For the financial year ended 31 July 2019

	Note	Group		Company	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Revenue	4	307,375	349,777	68,151	78,094
Other items of income					
Interest income	5	5,926	3,749	2,691	2,307
Dividend income		172	186	172	10,186
Other income		2,599	3,082	3,643	4,971
Items of expenses					
Raw materials and consumables used		(41,496)	(31,986)	(1,817)	(1,879)
Changes in inventories of finished goods and work-in-progress		(1,014)	327	–	–
Employee benefits expense	6	(103,587)	(112,815)	(35,709)	(40,621)
Depreciation of property, plant and equipment	11	(74,894)	(78,361)	(7,369)	(7,432)
Finance costs	7	(4,089)	(4,099)	(292)	(188)
Other expenses		(81,484)	(86,174)	(27,357)	(27,736)
Profit before tax	8	9,508	43,686	2,113	17,702
Income tax expense	9	(3,232)	(4,348)	(708)	(1,720)
Profit, net of tax		6,276	39,338	1,405	15,982
Other comprehensive income:					
Item that will not be reclassified to profit or loss					
Remeasurement (loss)/gain arising from net defined benefit liabilities, net of tax		(236)	10	–	–
Item to be reclassified subsequently to profit or loss					
Foreign currency translation gain/(loss)		469	(4,022)	–	–
Other comprehensive income for the year, net of tax		233	(4,012)	–	–
Total comprehensive income for the year, net of tax		6,509	35,326	1,405	15,982
Earnings per share attributable to owners of the Company					
– Basic	10	14.6 sen	91.5 sen		

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

STATEMENTS OF
FINANCIAL POSITION

As at 31 July 2019

	Note	2019	Group 2018 Restated	1.8.2017 Restated
		RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	11	164,848	211,032	242,873
Deferred tax assets	19	3,692	3,229	786
		168,540	214,261	243,659
Current assets				
Inventories	13	7,407	9,263	7,151
Trade and other receivables	14	65,925	77,341	82,680
Prepayments		2,714	5,627	6,718
Investment securities		6,688	9,647	8,046
Tax recoverable		1,267	1,163	437
Cash and short-term deposits	15	200,005	177,573	127,576
		284,006	280,614	232,608
Total assets		452,546	494,875	476,267
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	16	43,678	43,678	43,678
Reserves	17	315,467	312,829	285,461
Total equity		359,145	356,507	329,139
Non-current liabilities				
Loans and borrowings	18	15,451	47,037	37,604
Defined benefit liabilities	21	3,939	3,358	3,038
Deferred tax liabilities	19	3,324	3,019	–
		22,714	53,414	40,642
Current liabilities				
Trade and other payables	20	24,318	35,807	73,525
Contract liabilities	4	525	1,208	1,061
Loans and borrowings	18	45,844	47,880	31,875
Income tax payable		–	59	25
		70,687	84,954	106,486
Total liabilities		93,401	138,368	147,128
Total equity and liabilities		452,546	494,875	476,267

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

STATEMENTS OF FINANCIAL POSITION

As at 31 July 2019

	Note	Company 2019 RM'000	Company 2018 RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	26,119	26,113
Investment in subsidiaries	12	79,250	79,250
Deferred tax assets	19	355	311
		105,724	105,674
Current assets			
Inventories	13	154	71
Trade and other receivables	14	22,632	21,944
Prepayments		1,114	3,167
Investment securities		6,688	9,647
Tax recoverable		832	439
Cash and short-term deposits	15	71,166	78,342
		102,586	113,610
Total assets		208,310	219,284
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	16	43,678	43,678
Reserves	17	150,178	152,644
Total equity		193,856	196,322
Non-current liabilities			
Loans and borrowings	18	100	2,057
		100	2,057
Current liabilities			
Trade and other payables	20	11,503	17,575
Loans and borrowings	18	2,851	3,330
		14,354	20,905
Total liabilities		14,454	22,962
Total equity and liabilities		208,310	219,284

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 2019

	Note	Equity, total RM'000	Attributable to owners of the Company: Equity attributable to owners of the Company, total RM'000	Non-distributable: Share capital (Note 16) RM'000	Distributable: Retained earnings (Note 17) RM'000	Non-distributable: 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
Group									
As at 1 August 2017		329,139	329,139	43,678	265,504	19,957	13,088	2,240	4,629
Profit for the year		39,338	39,338	–	39,338	–	–	–	–
Other comprehensive income for the year, net of tax		(4,012)	(4,012)	–	10	(4,022)	(4,022)	–	–
Total comprehensive income for the year		35,326	35,326	–	39,348	(4,022)	(4,022)	–	–
Transactions with owners									
Dividends on ordinary shares	28	(7,958)	(7,958)	–	(7,958)	–	–	–	–
As at 31 July 2018 and 1 August 2018		356,507	356,507	43,678	296,894	15,935	9,066	2,240	4,629
Profit for the year		6,276	6,276	–	6,276	–	–	–	–
Other comprehensive income for the year, net of tax		233	233	–	(236)	469	469	–	–
Total comprehensive income for the year		6,509	6,509	–	6,040	469	469	–	–
Transactions with owners									
Dividends on ordinary shares	28	(3,871)	(3,871)	–	(3,871)	–	–	–	–
As at 31 July 2019		359,145	359,145	43,678	299,063	16,404	9,535	2,240	4,629

STATEMENTS OF
CHANGES IN EQUITY
For the financial year ended 31 July 2019

	Note	Equity, total RM'000	Non-distributable Share capital (Note 16) RM'000	Distributable Retained earnings (Note 17) RM'000	Non-distributable Other reserves, total RM'000	Merger relief reserve (Note 17) RM'000
Company						
As at 1 August 2017		188,298	43,678	143,405	1,215	1,215
Total comprehensive income for the year		15,982	–	15,982	–	–
Transaction with owners						
Dividends on ordinary shares	28	(7,958)	–	(7,958)	–	–
As at 31 July 2018 and 1 August 2018		196,322	43,678	151,429	1,215	1,215
Total comprehensive income for the year		1,405	–	1,405	–	–
Transaction with owners						
Dividends on ordinary shares	28	(3,871)	–	(3,871)	–	–
As at 31 July 2019		193,856	43,678	148,963	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 2019

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Operating activities					
Profit before tax		9,508	43,686	2,113	17,702
Adjustments for:					
Depreciation of property, plant and equipment	11	74,894	78,361	7,369	7,432
Net gain on disposal of property, plant and equipment	8	(1,860)	(104)	–	(58)
Net loss on disposal of investment securities	8	94	–	94	–
Property, plant and equipment written off	8	2	6	1	1
Net fair value loss/(gain) on investment securities	8	1,071	(937)	1,071	(937)
Unrealised exchange (gain)/loss		(57)	(70)	(9)	5
Write-off of inventories	8	174	69	–	–
Dividend income		(172)	(186)	(172)	(10,186)
Interest income		(5,926)	(3,749)	(2,691)	(2,307)
Finance costs		4,089	4,099	292	188
Operating cash flows before changes in working capital		81,817	121,175	8,068	11,840
Changes in working capital:					
Decrease/(increase) in inventories		1,682	(2,181)	(83)	3
Decrease in prepayments and receivables		14,648	6,033	1,341	839
Decrease in payables and contract liabilities		(8,098)	(41,786)	(2,475)	(5,391)
Cash flows from operations		90,049	83,241	6,851	7,291
Income taxes paid		(3,533)	(4,582)	(1,145)	(1,882)
Interest paid		(4,135)	(3,752)	(292)	(188)
Interest received		5,716	3,040	2,715	1,968
Net cash flows from operating activities		88,097	77,947	8,129	7,189

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Investing activities					
Increase in short-term deposits with maturity more than three months		(20,769)	(56,722)	(4,959)	(9,471)
Purchase of investment securities		(2,091)	(1,690)	(2,091)	(1,690)
Proceeds from disposal of investment securities		3,885	1,026	3,885	1,026
Dividend income		172	186	172	27,186
Purchase of property, plant and equipment	11	(25,835)	(41,516)	(5,273)	(3,182)
Proceeds from disposal of property, plant and equipment		2,518	134	–	58
Net cash flows (used in)/from investing activities		(42,120)	(98,582)	(8,266)	13,927
Financing activities					
Repayment of obligations under finance leases		(5,364)	(4,591)	(4,040)	(2,395)
Repayment of bank loans		(76,910)	(43,589)	–	–
Proceeds from bank loans		45,822	68,904	–	–
Dividends paid on ordinary shares		(7,958)	(5,377)	(7,958)	(5,377)
Net cash flows (used in)/from financing activities		(44,410)	15,347	(11,998)	(7,772)
Net increase/(decrease) in cash and cash equivalents		1,567	(5,288)	(12,135)	13,344
Effect of exchange rate changes on cash and cash equivalents		96	(1,437)	–	4
Cash and cash equivalents at beginning of the year		74,716	81,441	33,801	20,453
Cash and cash equivalents at end of the year	15	76,379	74,716	21,666	33,801

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that on 1 August 2018, 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 2018.

Description	Effective for annual periods beginning on or after
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
MFRS 15: Clarification to MFRS 15	1 January 2018
IC Interpretation 22: Foreign Currency Translations and Advance Consideration	1 January 2018

The 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, except for the following:

MFRS 9 Financial Instruments

MFRS 9 replaces the guidance in MFRS 139 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

On 1 August 2018, the Group adopted MFRS 9, which is effective for annual periods beginning on or after 1 January 2018. Under the transitional provisions of MFRS 9, the Group and the Company have elected not to restate the comparative information, which continues to be reported under MFRS 139.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

MFRS 9 Financial Instruments (continued)

(i) Classification and measurement

Under MFRS 9, debt instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost, or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's and the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' ("SPPI") on the principal amount outstanding.

The assessment of the Group's and the Company's business model was made as of 1 August 2018. The assessment of whether contractual cash flows on debt instruments solely consist of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of MFRS 9 did not have a significant impact to the Group and the Company. The following are the changes in the classification of the Group's and the Company's financial assets:

Trade receivables and other financial assets

Trade receivables and other financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as debt instruments at amortised cost.

Quoted equity investments

There was no change to quoted equity investment previously classified as financial assets at FVPL.

(ii) Impairment

MFRS 9 also replaces the incurred loss model in MFRS 139 with a forward-looking expected credit loss ("ECL") model. Under MFRS 9, loss allowances will be measured on either 12-month ECLs or lifetime ECLs.

The adoption of MFRS 9 does not have significant impact to the financial statements of the Group and the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 replaces the guidance in MFRS 111: Construction Contracts, MFRS 118: Revenue, IC Interpretation 13: Customer Loyalty Programmes, IC Interpretation 15: Agreements for Construction of Real Estate, IC Interpretation 18: Transfers of Assets from Customers and IC Interpretation 131: Revenue – Barter Transactions Involving Advertising Services. MFRS 15 provides a single model of accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations.

The Group adopted MFRS 15 using the full retrospective method which is effective for annual periods beginning on or after 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date.

The following is the reconciliation of the impact arising from the adoption of MFRS 15 on 1 August 2017 and 31 July 2018 to the statements of financial position of the Group.

		Group	
	1.8.2017 RM'000	MFRS 15 adjustment RM'000	1.8.2017 RM'000
Current liabilities			
Trade and other payables	74,586	(1,061)	73,525
Contract liabilities	–	1,061	1,061
	74,586	–	74,586

		Group	
	31.7.2018 RM'000	MFRS 15 adjustment RM'000	31.7.2018 RM'000
Current liabilities			
Trade and other payables	37,015	(1,208)	35,807
Contract liabilities	–	1,208	1,208
	37,015	–	37,015

The adoption of MFRS 15 did not have any impact to the financial statements of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective

The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
MFRS 16: Leases	1 January 2019
Amendments to MFRS 3, MFRS 11, MFRS 112 and MFRS 123: Annual Improvements to MFRS Standards 2015 – 2017 Cycle	1 January 2019
IC Interpretation 23: Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to MFRS 119: MFRS 119 Plan Amendment, Curtailment or Settlement	1 January 2019
Conceptual Framework for Financial Reporting	1 January 2020
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Definition of Material (Amendments to MFRS 101: Presentation of Financial Statements and MFRS 108: Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2020
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 those discussed below:

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, the Group and the Company as lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset (i.e. the right-of-use 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective (continued)

MFRS 16 Leases (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events such as a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to 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. The Group and the Company have performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from on-going analysis until the Group and the Company adopt MFRS 16 on 1 August 2019. On the adoption of MFRS 16, the Group and the Company expect to recognise right-of-use assets and lease liabilities for its leases previously classified as operating leases.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Basis of consolidation and business combinations (continued)

(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 fair value at acquisition date, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is an asset or liability are 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 initial 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Functional and foreign currency (continued)

(ii) Consolidated financial statements

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 reporting 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.

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 and the Company recognise 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	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. Certain assets are stated at cost and are not depreciated as these assets are not available for use.

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

The residual value, useful life and depreciation method are reviewed at each reporting date, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Impairment of non-financial assets

The Group and the Company assess at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group and the Company make 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 or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group and the Company base their impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's and of the Company's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of three to five years. For longer periods, a long-term growth rate is calculated and applied to projected 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:

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group and the Company become a party to the contractual provisions of the instruments.

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them.

With the exception of trade receivables that do not contain a significant financing component, the Group and the Company initially measure a financial asset at its fair value plus, transaction costs, in the case of a financial asset not at FVPL.

Trade receivables that do not contain a significant financing component are measured at the transaction price determined under MFRS 15.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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, that is the date that the Group and the Company commit to purchase or sell the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (continued)

(i) Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

(a) Financial assets at amortised cost

The Group and the Company measure financial assets at amortised cost if both of the following conditions are met:

– The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

Financial assets at FVPL include financial assets held for trading. Financial assets held for trading comprise investment securities, derivatives and financial assets acquired principally for the purpose of selling or repurchasing them in the near term.

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 FVPL do not include exchange differences, interest and dividend income. Exchange differences, interest and dividend income on financial assets at FVPL are recognised separately in profit or loss as part of other expenses or other income.

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 for debt instruments is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Financial instruments (continued)

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings and payables.

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

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

Subsequent measurement

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

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

Financial liabilities at FVPL 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 and the Company that are not designated as hedging instruments in hedge relationships as defined by MFRS 9.

Gains or losses on liabilities held for trading are recognised in profit or loss.

(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 method. Gains or losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

This category generally applies to trade and other payables, and loans and borrowings. Financial liabilities are classified as current liabilities, except for those having repayment date later than 12 months after the reporting date which are classified as non-current.

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. The difference in the respective carrying amounts is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Impairment of financial assets

The Group and the Company recognise an allowance for ECLs for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

For trade receivables, the Group and the Company apply a simplified approach in calculating ECLs. Therefore, the Group and the Company do not track changes in credit risk, but instead recognise a loss allowance based on lifetime ECLs at each reporting date. The Group and the Company have established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group and the Company may consider a financial asset to be in default when internal or external information indicates that the Group and the Company are unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group and the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 and the Company'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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

(a) raw materials – purchase costs on a weighted average basis;

(b) consumables – purchase costs on a first-in first-out basis; and

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

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 (CONTINUED)

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 and of the Company. 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 and the Company pay 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 plan

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 and the Company 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 and the Company will obtain ownership by the end of the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Leases (continued)

(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.

(iii) Operating lease – as lessor

Leases in which the Group and the Company do not transfer 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 measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group and the Company recognise revenue when or as they transfer control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;

(b) the entity's performance creates or enhances an asset (for example, work-in-progress) that the customer controls as the asset is created or enhanced; or

(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at a point in time.

(i) Sale of goods

Revenue is recognised when the goods are delivered to the customers and all criteria for acceptance have been satisfied.

Revenue is measured at the consideration promised in the contract with customers, less discounts and rebates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Revenue (continued)

(ii) Rendering of services

Revenue is recognised when the performance obligation is satisfied at a point in time, that is upon the performance of services to the customers, which coincides with their acceptance.

The amount of revenue recognised is based on the estimated transaction price, which comprises the contractual price, net of the estimated volume discounts. Based on the Group's and the Company's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(iii) Judgement and methods used in estimating revenue

In estimating the variable consideration, the Group and the Company use the expected value method to predict the volume, early payment discounts and product returns, by the different product types based on historical experiences with the customers.

Management has exercised judgement in applying the constraint on the estimated variable consideration that can be included in the transaction price. For volume and early payment discounts, management determines that a portion of the estimated variable consideration is subject to the constraint as, based on past experience with the customers, it is highly probable that a reversal in the cumulative amount of revenue recognised will occur, and therefore will not be recognised as revenue. For product returns, management considers its historical experience and evidence from other similar contracts to develop an estimate of variable consideration for expected returns using the expected value method.

(iv) Contract liability

A contract liability is recognised when the Group and the Company have not yet performed under the contract but has received advanced payments from the customers. Contract liabilities are recognised as revenue when the Group and the Company perform under the contract.

(v) Others

(a) Interest income

Interest income is recognised using the effective interest method.

(b) Dividend income

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

(c) Rental income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Taxes

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods 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.

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

(a) 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

(b) 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, the 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:

(a) 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

(b) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Taxes (continued)

(ii) Deferred tax (continued)

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 assets 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 except:

(a) where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case 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

(b) receivables and payables that are stated with the amount of sales tax included.

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 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Segment reporting

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

2.22 Contingencies

A contingent liability is:

(a) 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 and of the Company; or

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

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

- 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 and of the Company.

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

2.23 Current versus non-current classification

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

(a) expected to be realised or intended to be sold or consumed in the normal operating cycle;

(b) held primarily for the purpose of trading;

(c) expected to be realised within twelve months after the reporting period; or

(d) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Current versus non-current classification (continued)

A liability is current when:

(a) it is expected to be settled in the normal operating cycle;

(b) it is held primarily for the purpose of trading;

(c) it is due to be settled within twelve months after the reporting period; or

(d) there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group and the Company classify all other liabilities, including deferred tax liabilities as non-current.

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 and of the Company 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 and the Company 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 and of the Company. Such changes are reflected in the assumptions when they occur.

(i) Deferred tax assets

Deferred tax assets are recognised 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 market outlooks. The carrying amount of the Group's deferred tax assets at reporting date was RM3,692,000 (2018: RM3,229,000). Further details are disclosed in Note 19.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

3.2 Key sources of estimation uncertainty (continued)

(ii) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment for property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. If such indicators exist, the recoverable amount (i.e. higher of the fair value less costs to sell and value in use) of the assets is estimated to determine the amount of impairment loss.

The recoverable amounts are determined based on value in use calculations, using discounted cash flow analysis with certain key parameters such as discount rate and growth rate. Management believes that the aforesaid variables are unlikely to materially result in the carrying amount of property, plant and equipment exceeding their recoverable amounts. The carrying amount of the Group's property, plant and equipment at the reporting date is disclosed in Note 11.

(iii) Impairment of investment in subsidiaries

The recoverable amounts of investment in subsidiaries are determined based on value in use calculations, using a discounted cash flow model. The recoverable amount is based on, amongst other variables, the discount rate used for the discounted cash flow model and long term growth rate used. Management believes that the aforesaid variables are unlikely to materially result in the carrying value of the subsidiaries exceeding its recoverable amounts.

The carrying amount of the Company's investment in subsidiaries at the reporting date was RM79,250,000 (2018: RM79,250,000).

4. REVENUE

(i) Disaggregation of revenue

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Types of goods and services				
Sale of goods	41,727	31,024	–	–
Rendering of services	265,648	318,753	68,151	78,094
	307,375	349,777	68,151	78,094
Geographical markets				
Malaysia	234,473	255,452	67,574	77,925
China	52,970	69,251	–	–
Others	19,932	25,074	577	169
	307,375	349,777	68,151	78,094

The goods and services are transferred to the customers at a point in time.

4. REVENUE (CONTINUED)

(ii) Contract liabilities

	Group	
	2019	2018 Restated
	RM'000	RM'000
Contract liabilities	525	1,208

Contract liabilities primarily relate to the Group's and the Company's obligation to transfer goods to customers for which the Group and the Company have received advances from customers for sale of goods. Contract liabilities are recognised as revenue when the Group and the Company perform under the contract, usually upon delivery of the goods to customers.

Significant changes in contract liabilities are explained as follows:

	Group	
	2019	2018
	RM'000	RM'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	766	958

5. INTEREST INCOME

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
– Deposits with licensed banks	5,893	3,713	2,625	2,271
– Loan to a subsidiary	–	–	33	–
– Others	33	36	33	36
	5,926	3,749	2,691	2,307

6. EMPLOYEE BENEFITS EXPENSE

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Employee benefits expense (including directors):					
– Wages, salaries and bonuses		87,493	95,649	32,547	38,042
– Contributions to defined contribution plan		3,086	3,125	1,062	1,074
– Social security contributions		6,561	7,424	147	149
– Defined benefit obligations	21	266	265	–	–
– Other benefits		6,181	6,352	1,953	1,356
		103,587	112,815	35,709	40,621

7. FINANCE COSTS

	Note	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Interest expense on:					
– Bank loans		3,675	3,705	–	–
– Obligations under finance leases		335	329	292	188
– Defined benefit obligations	21	79	65	–	–
		4,089	4,099	292	188

8. PROFIT BEFORE TAX

	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Profit before tax is arrived at:				
After charging:				
Auditors' remunerations				
– Statutory audit	365	378	130	131
– Non-audit services	134	267	134	141
Directors' remuneration	1,757	2,531	1,637	1,581
Rental of factory	2,928	2,492	1,495	1,458
Utilities	33,971	32,968	12,164	11,098
Repairs and maintenance	20,947	25,580	4,261	4,970
Property, plant and equipment written off	2	6	1	1
Net loss on disposal of investment securities	94	–	94	–
Net fair value loss on investment securities	1,071	–	1,071	–
Write-off of inventories	174	69	–	–
Settlement of litigation	1,660	–	–	–
and crediting:				
Net gain on disposal of property, plant and equipment	1,860	104	–	58
Net fair value gain on investment securities	–	937	–	937
Rental income from a subsidiary	–	–	1,502	1,385
Net foreign exchange gain	6	298	62	113

8. PROFIT BEFORE TAX (CONTINUED)

Information on directors' remuneration is as follows:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Directors' remuneration				
In respect of the Company's directors:				
Executive:				
– Fees	203	1,033	103	103
– Salaries and other emoluments	1,344	1,288	1,344	1,288
	1,547	2,321	1,447	1,391
Non-executive:				
– Fees	183	183	163	163
– Allowances	27	27	27	27
	210	210	190	190
Total directors' remuneration	1,757	2,531	1,637	1,581

9. INCOME TAX EXPENSE

(i) Major components of income tax expense

The major components of income tax expense for the years ended 31 July 2019 and 2018 are:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Current income tax:				
– Malaysian income tax	3,397	3,820	742	1,439
– (Over)/under provision in prior years	(27)	70	10	(4)
	3,370	3,890	752	1,435
Deferred tax (Note 19):				
– Origination and reversal of temporary differences	788	754	174	559
– Over provision in prior years	(926)	(296)	(218)	(274)
	(138)	458	(44)	285
Income tax expense recognised in profit or loss	3,232	4,348	708	1,720

9. INCOME TAX EXPENSE (CONTINUED)

(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 2019 and 2018 is as follows:

	Group	
	2019 RM'000	2018 RM'000
Profit before tax	9,508	43,686
Tax at Malaysian statutory tax rate of 24% (2018: 24%)	2,282	10,485
Adjustments:		
Effect of different tax rate on foreign (expense)/income	(60)	45
Income not subject to tax	(34)	(654)
Non-deductible expenses	925	716
Utilisation of previously unrecognised tax benefits	(1,466)	(5,517)
Deferred tax asset recognised on reinvestment allowance	–	(1,883)
Deferred tax asset not recognised on unutilised business losses and other deductible temporary differences	2,538	1,382
(Over)/under provision of income tax expense in prior years	(27)	70
Over provision of deferred tax in prior years	(926)	(296)
Income tax expense recognised in profit or loss	3,232	4,348

	Company	
	2019 RM'000	2018 RM'000
Profit before tax	2,113	17,702
Tax at Malaysian statutory tax rate of 24% (2018: 24%)	507	4,248
Adjustments:		
Income not subject to tax	(49)	(2,689)
Non-deductible expenses	458	439
Under/(over) provision of income tax expense in prior years	10	(4)
Over provision of deferred tax in prior years	(218)	(274)
Income tax expense recognised in profit or loss	708	1,720

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 (CONTINUED)

The Group had the following reinvestment allowance in prior year that was available indefinitely for offsetting against future taxable profits of the companies in which they arose:

	Group	
	2019 **RM'000**	**2018** **RM'000**
Reinvestment allowance	–	15,879

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	
	2019 **RM'000**	**2018** **RM'000**
Profit attributable to owners of the Company	6,276	39,338
	Number of shares '000	**Number of shares '000**
Weighted average number of ordinary shares for basic earnings per share calculation	43,015	43,015
Basic earnings per share	14.6 sen	91.5 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 or potential ordinary shares between the reporting date and the date of authorisation 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 2019								
At Cost								
At 1 August 2018	21,525	1,111	5,089	33,370	800,820	1,713	10,973	874,601
Additions	–	–	–	881	27,756	–	451	29,088
Disposals	–	–	–	–	(3,528)	–	–	(3,528)
Write off	–	–	–	(72)	(4,651)	–	(479)	(5,202)
Exchange differences	–	–	–	203	1,202	1	27	1,433
At 31 July 2019	21,525	1,111	5,089	34,382	821,599	1,714	10,972	896,392
Accumulated depreciation								
At 1 August 2018	19,488	–	1,672	24,134	608,787	748	8,740	663,569
Depreciation charge for the year	1,323	–	84	3,607	68,770	277	833	74,894
Disposals	–	–	–	–	(2,870)	–	–	(2,870)
Write off	–	–	–	(72)	(4,650)	–	(478)	(5,200)
Exchange differences	–	–	–	132	1,000	2	17	1,151
At 31 July 2019	20,811	–	1,756	27,801	671,037	1,027	9,112	731,544
Net carrying amount	714	1,111	3,333	6,581	150,562	687	1,860	164,848

* Included in the net carrying amounts of the Group's renovation, and plant, machinery and test equipment and office equipment, furniture and fittings and computers of RM40,000, RM8,827,000 and RM113,000 respectively, were assets under testing phase which were not depreciated as they were not available for use.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2018								
At Cost								
At 1 August 2017	21,525	1,111	5,089	32,932	785,919	1,746	11,312	859,634
Additions	–	–	–	3,032	43,557	475	763	47,827
Disposals	–	–	–	–	(39)	(501)	–	(540)
Write off	–	–	–	(706)	(17,700)	–	(857)	(19,263)
Exchange differences	–	–	–	(1,888)	(10,917)	(7)	(245)	(13,057)
At 31 July 2018	21,525	1,111	5,089	33,370	800,820	1,713	10,973	874,601
Accumulated depreciation								
At 1 August 2017	17,603	–	1,588	22,770	564,778	1,010	9,012	616,761
Depreciation charge for the year	1,885	–	84	3,509	71,858	247	778	78,361
Disposals	–	–	–	–	(9)	(501)	–	(510)
Write off	–	–	–	(706)	(17,695)	–	(856)	(19,257)
Exchange differences	–	–	–	(1,439)	(10,145)	(8)	(194)	(11,786)
At 31 July 2018	19,488	–	1,672	24,134	608,787	748	8,740	663,569
Net carrying amount	2,037	1,111	3,417	9,236	192,033	965	2,233	211,032

* Included in the net carrying amounts of the Group's renovation, and plant, machinery and test equipment of RM315,000 and RM8,336,000 respectively, were assets under testing phase which were not depreciated as they were not available for use.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2019								
At Cost								
At 1 August 2018	10,035	1,111	2,389	2,555	124,979	975	3,878	145,922
Additions	–	–	–	101	7,034	–	241	7,376
Write off	–	–	–	–	(1,360)	–	(47)	(1,407)
At 31 July 2019	10,035	1,111	2,389	2,656	130,653	975	4,072	151,891
Accumulated depreciation								
At 1 August 2018	8,837	–	773	1,460	105,367	330	3,042	119,809
Depreciation charge for the year	502	–	20	310	6,064	177	296	7,369
Write off	–	–	–	–	(1,360)	–	(46)	(1,406)
At 31 July 2019	9,339	–	793	1,770	110,071	507	3,292	125,772
Net carrying amount	696	1,111	1,596	886	20,582	468	780	26,119

* Included in the net carrying amounts of the Company's plant, machinery and test equipment of RM474,000 were assets under testing phase which were not depreciated as they were not available for use.

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2018								
At Cost								
At 1 August 2017	10,035	1,111	2,389	1,965	120,031	919	4,177	140,627
Additions	–	–	–	909	7,608	296	309	9,122
Disposals	–	–	–	–	–	(240)	–	(240)
Write off	–	–	–	(319)	(2,660)	–	(608)	(3,587)
At 31 July 2018	10,035	1,111	2,389	2,555	124,979	975	3,878	145,922
Accumulated depreciation								
At 1 August 2017	8,094	–	753	1,545	101,991	408	3,412	116,203
Depreciation charge for the year	743	–	20	234	6,036	162	237	7,432
Disposals	–	–	–	–	–	(240)	–	(240)
Write off	–	–	–	(319)	(2,660)	–	(607)	(3,586)
At 31 July 2018	8,837	–	773	1,460	105,367	330	3,042	119,809
Net carrying amount	1,198	1,111	1,616	1,095	19,612	645	836	26,113

* Included in the net carrying amounts of the Company's plant, machinery and test equipment of RM829,000 were assets under testing phase which were not depreciated as they were not available for use.

(i) Assets held under finance leases

The carrying amount of assets held under finance leases:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Plant, machinery and test equipment	5,736	8,500	4,284	5,994
Motor vehicles	537	753	452	615
	6,273	9,253	4,736	6,609

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

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(ii) Additions

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

		Group		Company	
	Note	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Cash payments		25,835	41,516	5,273	3,182
Finance leases		2,740	5,057	1,604	5,057
Other payables	20	513	1,254	499	883
		29,088	47,827	7,376	9,122

12. INVESTMENT IN SUBSIDIARIES

	Company	
	2019 RM'000	2018 RM'000
Unquoted shares, at cost	79,250	79,250

Composition of the Group

The Company has the following investments in subsidiaries:

Name of company	Country of incorporation	Principal activities	Proportion of ownership interest 2019 %	Proportion of ownership interest 2018 %
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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
At cost				
Raw materials	3,607	4,469	–	–
Consumables	1,572	1,552	154	71
Work-in-progress	207	2,247	–	–
Finished goods	2,021	995	–	–
	7,407	9,263	154	71

During the financial year, the Group wrote off RM174,000 (2018: RM69,000) of inventories which were recognised in 'Other expenses' line item in the statement of profit or loss and other comprehensive income.

14. TRADE AND OTHER RECEIVABLES

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Trade receivables					
Third parties		60,428	74,637	15,714	19,117
Amounts due from related companies		12	366	–	–
		60,440	75,003	15,714	19,117
Other receivables					
Refundable deposits		1,104	893	524	491
Sundry receivables		2,388	1,444	700	831
Loan to a subsidiary		–	–	2,100	–
Amounts due from subsidiaries		–	–	1,602	1,505
Amounts due from related companies		1,993	1	1,992	–
		5,485	2,338	6,918	2,827
Total trade and other receivables		65,925	77,341	22,632	21,944
Add: Cash and short-term deposits	15	200,005	177,573	71,166	78,342
Total financial assets carried at amortised cost		265,930	254,914	93,798	100,286

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

(i) Trade receivables

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

Ageing analysis of trade receivables

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

	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Neither past due nor impaired	58,042	72,818	15,462	19,005
Past due not impaired				
– 1 to 60 days	2,304	1,872	252	44
– 61 to 120 days	86	251	–	–
– More than 120 days	8	62	–	68
	2,398	2,185	252	112
	60,440	75,003	15,714	19,117

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 RM2,398,000 (2018: RM2,185,000) and RM252,000 (2018: RM112,000) respectively, 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.

(ii) Related company receivables

Loan to a subsidiary bears interest rates between 4.78% and 5.03% per annum, is unsecured and expected to be repaid in the next 12 months.

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.

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
United States Dollar	7,313	4,498	2,213	24
Ringgit Malaysia	44,395	54,472	20,419	21,920
Renminbi	14,217	18,371	–	–
	65,925	77,341	22,632	21,944

15. CASH AND SHORT-TERM DEPOSITS

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash at banks and on hand	29,247	23,220	6,084	4,305
Deposits with licensed banks	170,758	154,353	65,082	74,037
Cash and short-term deposits	200,005	177,573	71,166	78,342
Less: Bank deposits with maturity more than three months	(123,626)	(102,857)	(49,500)	(44,541)
Cash and cash equivalents	76,379	74,716	21,666	33,801

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
United States Dollar	1,532	2,281	462	1,327
Ringgit Malaysia	175,402	151,306	70,704	77,015
Renminbi	23,071	23,986	–	–
	200,005	177,573	71,166	78,342

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 seven days and three months (2018: between six 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 2019 for the Group and the Company were 3.6% (2018: 3.7%) and 3.7% (2018: 3.9%) per annum respectively.

Cash and short-term deposits of RM23,691,000 (2018: RM23,986,000) 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	
	2019	2018	2019	2018
	'000	'000	RM'000	RM'000
Issued and fully paid ordinary shares:				
At beginning/end of the year	43,015	43,015	43,678	43,678

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	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Distributable:				
Retained earnings	299,063	296,894	148,963	151,429
Non-distributable:				
Statutory reserve fund	4,629	4,629	–	–
Merger relief reserve	–	–	1,215	1,215
Capital reserve	2,240	2,240	–	–
Foreign currency translation reserve	9,535	9,066	–	–
	315,467	312,829	150,178	152,644

(i) Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 July 2019 under the single tier system.

(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.

17. RESERVES (CONTINUED)

(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

	Maturity year	Group 2019 RM'000	Group 2018 RM'000	Company 2019 RM'000	Company 2018 RM'000
Current					
Obligations under finance leases (Note 23)					
– Secured	2020	3,411	4,494	2,851	3,330
Bank loans	2020	42,433	43,386	–	–
		45,844	47,880	2,851	3,330
Non-current					
Obligations under finance leases (Note 23)					
– Secured	2021	516	2,057	100	2,057
Bank loans	2021	14,935	44,980	–	–
		15,451	47,037	100	2,057
Total loans and borrowings		61,295	94,917	2,951	5,387

(i) Obligations under finance leases – secured

The Group and the Company have finance leases for certain assets (Note 11). Obligations under finance leases of RM3,927,000 (2018: RM6,551,000) and RM2,951,000 (2018: RM5,387,000) of the Group and of the Company respectively, are secured by a charge over the leased assets.

At reporting date, the finance leases of the Group and of the Company bore effective interests between 3.80% and 6.87% (2018: between 3.80% and 6.60%), and 3.80% and 6.59% (2018: 3.80% and 6.60%) per annum respectively.

(ii) Bank loans

Term loans of RM13,256,000 (2018: RM12,221,000) for the Group are secured by corporate guarantee provided by the Company.

The bank loans bore interests between 4.61% and 5.94% (2018: between 4.77% and 5.94%) per annum during the financial year.

18. LOANS AND BORROWINGS (CONTINUED)

A reconciliation of movement of liabilities to cash flows arising from financing activities is as follows:

	2018	Cash flows	Non-cash items		2019
			Acquisitions	Other	
	RM'000	RM'000	RM'000	RM'000	RM'000
Group					
Bank loans					
– Current	43,386	(76,910)	–	75,957	42,433
– Non-current	44,980	45,822	–	(75,867)	14,935
Obligations under finance leases					
– Current	4,494	(5,364)	–	4,281	3,411
– Non-current	2,057	–	2,740	(4,281)	516
Total	94,917	(36,452)	2,740	90	61,295
Company					
Obligations under finance leases					
– Current	3,330	(4,040)	–	3,561	2,851
– Non-current	2,057	–	1,604	(3,561)	100
Total	5,387	(4,040)	1,604	–	2,951

	2017	Cash flows	Non-cash items		2018
			Acquisitions	Other	
	RM'000	RM'000	RM'000	RM'000	RM'000
Group					
Bank loans					
– Current	27,892	(43,589)	–	59,083	43,386
– Non-current	35,502	68,904	–	(59,426)	44,980
Obligations under finance leases					
– Current	3,983	(4,591)	–	5,102	4,494
– Non-current	2,102	–	5,057	(5,102)	2,057
Total	69,479	20,724	5,057	(343)	94,917
Company					
Obligations under finance leases					
– Current	1,774	(2,395)	–	3,951	3,330
– Non-current	951	–	5,057	(3,951)	2,057
Total	2,725	(2,395)	5,057	–	5,387

The 'Other' column relates to the reclassification of non-current portion of loans and borrowings including obligations under finance leases due to passage of time. Remaining amount relates to foreign exchange movement.

18. LOANS AND BORROWINGS (CONTINUED)

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Renminbi	13,256	12,221	–	–
Ringgit Malaysia	48,039	82,696	2,951	5,387
	61,295	94,917	2,951	5,387

19. DEFERRED TAX (ASSETS)/LIABILITIES

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
At beginning of the year		(210)	(786)	(311)	(596)
Recognised in profit or loss	9	(138)	458	(44)	285
Exchange differences		(20)	118	–	–
At end of the year		(368)	(210)	(355)	(311)
Presented after appropriate offsetting as follows:					
Deferred tax assets		(3,692)	(3,229)	(355)	(311)
Deferred tax liabilities		3,324	3,019	–	–
		(368)	(210)	(355)	(311)

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 2017	10,117	11	10,128
Recognised in profit or loss	(1,612)	2	(1,610)
At 31 July 2018	8,505	13	8,518
Recognised in profit or loss	(3,718)	(8)	(3,726)
At 31 July 2019	4,787	5	4,792

19. DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

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 2017	(190)	(7,304)	(3,420)	(10,914)
Recognised in profit or loss	(115)	3,493	(1,310)	2,068
Exchange differences	–	–	118	118
At 31 July 2018	(305)	(3,811)	(4,612)	(8,728)
Recognised in profit or loss	(150)	3,811	(73)	3,588
Exchange differences	–	–	(20)	(20)
At 31 July 2019	(455)	–	(4,705)	(5,160)
Net				(368)

* Others comprise other deductible temporary differences and provision.

Deferred tax liabilities of the Company

	Property, plant and equipment RM'000
At 1 August 2017	451
Recognised in profit or loss	(267)
At 31 July 2018	184
Recognised in profit or loss	(102)
At 31 July 2019	82

Deferred tax assets of the Company

	Others RM'000
At 1 August 2017	(1,047)
Recognised in profit or loss	552
At 31 July 2018	(495)
Recognised in profit or loss	58
At 31 July 2019	(437)
Deferred tax assets, net	(355)

19. DEFERRED TAX (ASSETS)/LIABILITIES (CONTINUED)

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2019	2018
	RM'000	RM'000
Unutilised business losses	23,468	12,970
Other deductible temporary differences	27,597	33,667
Total deferred tax assets not recognised	51,065	46,637

The availability of the unutilised business losses 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	
	Note	2019	2018 Restated	2019	2018
		RM'000	RM'000	RM'000	RM'000
Trade payables					
Third parties		2,255	3,634	–	–
Amounts due to related companies		15	30	15	30
Amounts due to a subsidiary		–	–	1,164	1,398
Other payables					
Accrued operating expenses		9,029	11,267	4,814	4,917
Sundry payables		9,650	11,371	2,941	3,658
Dividend payable		1,290	5,377	1,290	5,377
Balance due for acquisitions of property, plant and equipment	11	513	1,254	499	883
Amounts due to holding company		1,556	2,872	770	1,310
Amounts due to a related company		10	2	10	2
Total trade and other payables		24,318	35,807	11,503	17,575
Add: Loans and borrowings	18	61,295	94,917	2,951	5,387
Total financial liabilities carried at amortised cost		85,613	130,724	14,454	22,962

20. TRADE AND OTHER PAYABLES (CONTINUED)

(i) Trade payables and sundry payables

Trade payables, including amounts due to related companies and a subsidiary, and sundry payables are non-interest bearing. They are normally settled on 30-90 days' terms.

(ii) Related company payables

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

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

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
United States Dollar	1,915	2,518	404	55
Ringgit Malaysia	16,318	25,011	10,326	16,207
Renminbi	4,442	5,168	–	–
Others	1,643	3,110	773	1,313
	24,318	35,807	11,503	17,575

21. DEFINED BENEFIT LIABILITIES

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 liabilities in respect of its defined benefit plan is as follows:

	Group	
	2019 RM'000	2018 RM'000
Present value of defined benefit obligations, representing defined benefit liabilities	3,939	3,358

21. DEFINED BENEFIT LIABILITIES (CONTINUED)

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

	Group	
	2019 RM'000	2018 RM'000
Balance at beginning of the year	3,358	3,038
Current service costs	266	265
Interest costs	79	65
Remeasurement loss/(gain) on defined benefit liabilities		
– Actuarial loss/(gain) arising from changes in financial assumptions	236	(10)
Balance at end of the year	3,939	3,358

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	2019 RM'000	2018 RM'000
Current service costs	6	266	265
Interest costs	7	79	65
		345	330

Reported in other comprehensive income

	Group	
	2019 RM'000	2018 RM'000
Actuarial loss/(gain) arising from changes in financial assumptions	236	(10)

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

	Group	
	2019 %	2018 %
Discount rates	3.78 – 3.85	4.68 – 4.82
Expected rate of future salary increases	5.00	5.00

21. DEFINED BENEFIT LIABILITIES (CONTINUED)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit liabilities at the reporting date. Assuming all other assumptions were held constant, the Group's defined benefit liabilities will be higher/(lower) by:

		Group	
	Increase/ (decrease)	2019 RM'000	2018 RM'000
Discount rates	0.25%	(61)	(59)
	(0.25%)	62	61
Expected rate of future salary increases	0.25%	49	71
	(0.25%)	(73)	(50)

The duration of the defined benefit liabilities at the reporting date is 5 to 8 years (2018: 6 to 9 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, Company and related parties took place at terms agreed between the parties during the financial year.

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Transactions with Sunright Limited, holding company of the Company, and its subsidiaries				
Management fees charged by Sunright Limited	8,949	11,525	3,662	4,955
Dividend paid/payable to Sunright Limited	1,874	3,853	1,874	3,853
Sales to:				
– KES Systems, Inc.	2,636	–	–	–
Purchases from:				
– KES Systems & Service (1993) Pte Ltd	140	3,066	132	480
– KES Systems, Inc.	–	1,211	–	14
– KES Systems & Service (Shanghai) Co., Ltd	62	223	–	–
– KEST Systems & Service Ltd	49	181	37	21

22. RELATED PARTY TRANSACTIONS (CONTINUED)

(i) Sales and purchase of goods and services (continued)

	Company	
	2019 RM'000	2018 RM'000
Transactions with subsidiaries		
Rental income from a subsidiary	1,502	1,385
Commission income from a subsidiary	1,832	2,394
Interest income on loan to a subsidiary	33	–
Purchase of equipment from a subsidiary	620	–
Sale of equipment to a subsidiary	103	–
Dividend income from a subsidiary	–	10,000
Loan to a subsidiary	2,100	–

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 and of the Company are the key management personnel of the Group and the Company, whose remuneration are disclosed in Note 8.

23. COMMITMENTS

(i) Capital commitments

Capital expenditure as at the reporting date is as follows:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Property, plant and equipment				
Authorised and contracted for	5,418	14,493	1,161	381

Included in authorised and contracted for commitment is an amount of RM1,461,000 (2018: RM11,000) and RM1,048,000 (2018: RM11,000) relating to purchases from related companies by the Group and the Company respectively.

23. COMMITMENTS (CONTINUED)

(ii) Operating lease commitments – as lessee

The Group has entered into operating leases on office equipment. These leases have lease terms between three and five years, with no renewal option.

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

	Group		Company	
	2019	**2018**	**2019**	**2018**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Within one year	27	20	9	3
After one year but not more than five years	55	19	7	5
	82	39	16	8

(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	
	Note	**2019**	**2018**	**2019**	**2018**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Minimum lease payments					
Within one year		3,539	4,739	2,932	3,551
After one year but not more than five years		529	2,108	101	2,108
Total minimum lease payments		4,068	6,847	3,033	5,659
Less: Amounts representing finance charges		(141)	(296)	(82)	(272)
Present value of minimum lease payments		3,927	6,551	2,951	5,387
Present value of payments					
Within one year	18	3,411	4,494	2,851	3,330
After one year but not more than five years	18	516	2,057	100	2,057
Present value of minimum lease payments	18	3,927	6,551	2,951	5,387

24. FAIR VALUE OF ASSETS AND LIABILITIES

(i) Fair value hierarchy

The Group and the Company categorise fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Group and the Company can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – Unobservable inputs for the asset or liability.

Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

There has been no transfer between levels of fair value measurements during the financial years ended 31 July 2019 and 2018.

(ii) Assets and liabilities measured at fair value

The following table shows an analysis of each class of assets and liabilities measured at fair value at the reporting date:

	Quoted prices in active markets for identical instruments (Level 1) RM'000
2019	
Group/Company	
Financial assets	
Investment securities (quoted)	6,688
2018	
Group/Company	
Financial assets	
Investment securities (quoted)	9,647

24. FAIR VALUE OF ASSETS AND LIABILITIES (CONTINUED)

(iii) Assets and liabilities not measured 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 instruments that are priced to market interest rates on or near the reporting date.

(iv) Assets and liabilities not measured at fair value and whose carrying amounts are not reasonable approximation of fair value

The following tables show an analysis of the Group's and the Company's assets and liabilities not measured at fair value and whose carrying amounts are not reasonable approximation of fair value:

		Group			
	Note	Carrying amount 2019 RM'000	Fair value 2019 RM'000	Carrying amount 2018 RM'000	Fair value 2018 RM'000
Financial liabilities					
Obligations under finance leases (non-current)	18	516	504	2,057	2,033

		Company			
	Note	Carrying amount 2019 RM'000	Fair value 2019 RM'000	Carrying amount 2018 RM'000	Fair value 2018 RM'000
Financial liabilities					
Obligations under finance leases (non-current)	18	100	90	2,057	2,033

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's and the Company's overall risk management programme seeks to minimise potential adverse effects on financial performance of the Group and of the Company that these risks may expose.

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 and the Company'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 and the Company's exposure to these financial risks or the manner in which they manage and measure 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 and the Company obtain additional financing through bank borrowings and leasing arrangements.

The Group's and the Company'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 and the Company'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 RM182,000 (2018: RM190,000) higher/lower, arising mainly as a result of lower/higher interest expenses on floating rate loans and borrowings.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(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 and the Company have transactional currency exposures arising from sales and purchases that are denominated in currencies other than the respective functional currencies of Group entities, primarily United States Dollar ("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.

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 exchange rate against RM with all other variables held constant:

	Group		Company	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
USD/RM				
– Strengthened 1% (2018: 1%)	65	42	23	13
– Weakened 1% (2018: 1%)	(65)	(42)	(23)	(13)

(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 and the Company'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.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iii) Liquidity risk (continued)

Analysis of financial instruments by remaining contractual maturities

The tables below summarise 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.

	Note	On demand or within one year 2019 RM'000	One to five years 2019 RM'000	Total 2019 RM'000
Group				
Financial assets				
Investment securities		6,688	–	6,688
Trade and other receivables	14	65,925	–	65,925
Cash and short-term deposits	15	200,005	–	200,005
Total undiscounted financial assets		272,618	–	272,618
Financial liabilities				
Trade and other payables	20	(24,318)	–	(24,318)
Loans and borrowings		(47,697)	(15,801)	(63,498)
Total undiscounted financial liabilities		(72,015)	(15,801)	(87,816)
Total net undiscounted financial assets/(liabilities)		200,603	(15,801)	184,802
Company				
Financial assets				
Investment securities		6,688	–	6,688
Trade and other receivables	14	22,632	–	22,632
Cash and short-term deposits	15	71,166	–	71,166
Total undiscounted financial assets		100,486	–	100,486
Financial liabilities				
Trade and other payables	20	(11,503)	–	(11,503)
Loans and borrowings		(2,932)	(101)	(3,033)
Total undiscounted financial liabilities		(14,435)	(101)	(14,536)
Total net undiscounted financial assets/(liabilities)		86,051	(101)	85,950

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iii) Liquidity risk (continued)

	Note	On demand or within one year 2018 RM'000	One to five years 2018 RM'000	Total 2018 RM'000
Group				
Financial assets				
Investment securities		9,647	–	9,647
Trade and other receivables	14	77,341	–	77,341
Cash and short-term deposits	15	177,573	–	177,573
Total undiscounted financial assets		264,561	–	264,561
Financial liabilities				
Trade and other payables	20	(35,807)	–	(35,807)
Loans and borrowings		(51,729)	(48,665)	(100,394)
Total undiscounted financial liabilities		(87,536)	(48,665)	(136,201)
Total net undiscounted financial assets/(liabilities)		177,025	(48,665)	128,360
Company				
Financial assets				
Investment securities		9,647	–	9,647
Trade and other receivables	14	21,944	–	21,944
Cash and short-term deposits	15	78,342	–	78,342
Total undiscounted financial assets		109,933	–	109,933
Financial liabilities				
Trade and other payables	20	(17,575)	–	(17,575)
Loans and borrowings		(3,551)	(2,108)	(5,659)
Total undiscounted financial liabilities		(21,126)	(2,108)	(23,234)
Total net undiscounted financial assets/(liabilities)		88,807	(2,108)	86,699

The contractual 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 payable under corporate guarantee contracts are disclosed in Note 18(ii).

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iv) Credit risk

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

The Group's and the Company's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group and the Company trade with recognised and creditworthy third parties. It is the Group's and the Company'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 on-going basis with the result that the Group's and the Company's exposure to bad debts is not significant.

Trade receivables

The Group and the Company provide for lifetime ECLs for all trade receivables using a provision matrix. The provision rates are determined based on the Group's and the Company's historical observed default rates analysed in accordance to days past due by customers. The ECLs also incorporate forward-looking information.

No loss allowance has been made as at 31 July 2019.

Exposure to credit risk

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

(a) the carrying amount of each class of financial assets recognised in the statements of financial position; and

(b) a nominal amount of RM13,256,000 (2018: RM12,221,000) relating to corporate guarantees provided by the Company to the financial institutions for a subsidiary's bank loans.

Credit risk concentration profile

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

	2019		2018	
	RM'000	**% of total**	**RM'000**	**% of total**
Group				
By country				
Malaysia	42,614	71	52,880	71
Others*	17,826	29	22,123	29
	60,440	100	75,003	100

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

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iv) Credit risk (continued)

Credit risk concentration profile (continued)

	2019		2018	
	RM'000	% of total	RM'000	% of total
By industry sectors				
Burn-in, testing and electronic manufacturing services	60,440	100	75,003	100

At the reporting date, approximately:

(a) 85% (2018: 88%) of the Group's trade receivables were due from 5 (2018: 5) major customers who are in the automotive semiconductor industry; and

(b) 3% (2018: less than 1%) of the Group's trade and other receivables were due from related parties.

99% (2018: 100%) of the Company's trade receivables are located in Malaysia.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group and the Company. Cash and short-term deposits, and investment securities 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.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(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 and the Company do not have exposure on commodity price risk.

The Group's and the Company'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 price of the quoted equity instruments had been 5% (2018: 5%) higher/lower, with all other variables held constant, the Group's and the Company's profit before tax would have been RM334,000 (2018: RM482,000) higher/lower, arising as a result of higher/lower fair value gain on investment securities.

26. CAPITAL MANAGEMENT

The primary objective of the Group's and the Company's capital management is to ensure that they maintain a strong credit rating and healthy capital ratios in order to support their businesses and maximise shareholders' value.

The Group and the Company manage their capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust capital structure, the Group and the Company 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 financial years ended 31 July 2019 and 31 July 2018.

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 years ended 31 July 2019 and 31 July 2018.

The Group and the Company will continue to be guided by prudent financial policies of which gearing is an important aspect. The Group and the Company include 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.

26. CAPITAL MANAGEMENT (CONTINUED)

	Note	Group 2019 RM'000	Group 2018 RM'000
Loans and borrowings	18	61,295	94,917
Less: Cash and short-term deposits	15	(200,005)	(177,573)
Net cash		(138,710)	(82,656)
Equity attributable to owners of the Company		359,145	356,507
Less: Statutory reserve fund	17	(4,629)	(4,629)
		354,516	351,878

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 key 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 information

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

	Revenue 2019 RM'000	Revenue 2018 RM'000	Non-current assets 2019 RM'000	Non-current assets 2018 RM'000
Malaysia	234,473	255,452	137,372	183,808
PRC	52,970	69,251	27,476	27,224
Others	19,932	25,074	–	–
	307,375	349,777	164,848	211,032

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

27. SEGMENT INFORMATION (CONTINUED)

Information about major customers

The Group's customer base includes two (2018: 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 RM203,596,000 (2018: RM251,638,000).

28. DIVIDENDS

	Company	
	2019 RM'000	2018 RM'000
Recognised during the financial year		
Final tax exempt dividend for 2018 at 6 sen (2017: 6 sen) per ordinary share	2,581	2,581
Interim tax exempt dividend for 2019 at 3 sen (2018: 12.5 sen) per ordinary share	1,290	5,377
	3,871	7,958
Proposed but not recognised as a liability as at 31 July		
Final tax exempt dividend for 2019 at 6 sen (2018: 6 sen) per ordinary share	2,581	2,581

At the forthcoming Annual General Meeting, a final tax exempt dividend in respect of the financial year ended 31 July 2019, 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 2020.

29. SIGNIFICANT EVENT

A dispute between one of the Group's subsidiary, KESP Sdn. Bhd. ("KESP") and its customer arose in 2012 relating to a 2008 vendor supply contract, in which both parties made claims against one another. Amid unsuccessful negotiations to settle the claims, KESP received on 8 May 2013 a Demand for Arbitration ("Arbitration") which was commenced by the customer through the International Centre for Dispute Resolution, a division of the American Arbitration Association.

On 26 September 2013, prior to any significant progress in the Arbitration, the customer filed a voluntary petition for liquidation under Chapter 7 of the U.S. Bankruptcy Court in Dallas, Texas and the Arbitration was stayed. KESP filed its pre-bankruptcy claims against the customer with the bankruptcy court trustee. Ultimately, the trustee determined not to challenge KESP's claims or pursue the Arbitration, and the bankruptcy was completed. Notwithstanding the conclusion of the bankruptcy, the customer took the position that the customer's warranty claim survived and restarted the Arbitration. The parties tried unsuccessfully to resolve the dispute via mediation.

Thereafter, while KESP believed the customer's claim to be without merit and despite KESP's counterclaims against the customer, KESP determined that it was in its best interests to avoid further expense and diversion of management's time and attention. Even if KESP's counterclaims were successful, the bankruptcy would have made recovery uncertain and possibly require significant further legal costs. As such, on 20 June 2019 the parties entered into a settlement agreement and release of claims where KESP made a cash payment of USD0.4 million (equivalent of RM1.7 million) to the customer, and the Arbitration was dismissed on 11 July 2019.

30. AUTHORISATION OF FINANCIAL STATEMENTS FOR ISSUE

The financial statements for the year ended 31 July 2019 were authorised for issue in accordance with a resolution of the directors on 19 September 2019.

SHAREHOLDERS' INFORMATION

As at 19 September 2019

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	%
44	Less than 100	410	0.00
1,189	100 to 1,000 shares	767,100	1.78
1,082	1,001 to 10,000 shares	3,757,240	8.74
158	10,001 to 100,000 shares	4,173,450	9.70
31	100,001 to less than 5% of issued shares	13,491,300	31.37
1	5% and above of issued shares	20,825,000	48.41
2,505	Total	43,014,500	100.00

SUBSTANTIAL SHAREHOLDERS (PER REGISTER OF SUBSTANTIAL SHAREHOLDERS)

		Number of Shares Held			
	Name of Shareholders	Direct	%	Deemed Interest	%
1.	Sunright Limited	20,825,000	48.41	–	–
2.	Samuel Lim Syn Soo	–	–	20,825,000*	48.41
3.	Kumpulan Wang Persaraan (Diperbadankan)	1,560,000	3.63	1,177,800	2.74

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 2019.

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.	Kumpulan Wang Persaraan (Diperbadankan)	1,560,000	3.63
4.	Wong Tee Kim @ Wong Tee Fatt	1,550,000	3.60
5.	Amanahraya Trustees Berhad Public Islamic Opportunities Fund	851,000	1.98
6.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LPF)	557,500	1.30
7.	Maybank Nominees (Tempatan) Sdn Bhd MTrustee Berhad For Tenaga Nasional Berhad Retirement Benefit Trust Fund (RB-TNB-NOMUR) (419513)	538,900	1.25
8.	Amanahraya Trustees Berhad PB Islamic Smallcap Fund	521,600	1.21
9.	AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Tan Boon Ping (7004677)	500,500	1.16
10.	Tan Kim Hin	400,000	0.93
11.	Citigroup Nominees (Tempatan) Sdn Bhd Great Eastern Life Assurance (Malaysia) Berhad (LBF)	384,900	0.90
12.	Tan Jin Tuan	366,300	0.85
13.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lim Kong Hwee (E-KPG/SGK)	341,300	0.79
14.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (Nomura)	322,700	0.75
15.	Maybank Nominees (Tempatan) Sdn Bhd Maybank Trustees Berhad For Public Industry Growth Fund (N1401193027)	319,100	0.74
16.	Lim Khuan Eng	300,000	0.70
17.	AllianceGroup Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Yong Loy Huat (7000875)	285,000	0.66
18.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (MIDF AM IS EQ)	285,000	0.66
19.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (MIDF ABSR EQ)	250,000	0.58
20.	Tan Jin Tuan	228,300	0.53
21.	Maybank Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lau How Siong	191,000	0.44
22.	Public Nominees (Tempatan) Sdn Bhd Pledged Securities Account For Lee Khoon Beng (E-KLG)	183,000	0.43
23.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (AMUNDI SC EQ)	175,000	0.41
24.	Citigroup Nominees (Tempatan) Sdn Bhd Employees Provident Fund Board (PHEIM)	173,900	0.40
25.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For RHB Small Cap Opportunity Unit Trust	168,900	0.39
26.	HSBC Nominees (Tempatan) Sdn Bhd HSBC (M) Trustee Bhd For Pertubuhan Keselamatan Sosial (UOB AMM6939-406)	168,000	0.39
27.	Soon Hock Teong	150,000	0.35
28.	Malacca Equity Nominees (Tempatan) Sdn Bhd Exempt An For Phillip Capital Management Sdn Bhd	146,600	0.34
29.	Citigroup Nominees (Tempatan) Sdn Bhd Kumpulan Wang Persaraan (Diperbadankan) (UOB AM SC EQ)	145,100	0.34
30.	Cartaban Nominees (Tempatan) Sdn Bhd RHB Trustees Berhad For KAF Vision Fund	131,500	0.31
	TOTAL	34,077,600	79.21

NOTICE OF
ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 48th Annual General Meeting of the Company will be held at Connexion Conference & Event Centre, Spectrum and Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Wednesday, 8 January 2020 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 2019 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 2019.	Resolution 1
3.	To approve payment of Directors' fees and allowances of RM293,000 in respect of the financial year ended 31 July 2019.	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) Lim Mee Ing	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

AS SPECIAL BUSINESS

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

6.	Continuation in office as Independent Non-Executive Director	Resolution 6
	"THAT Mr Yong Chee Hou who has served as an Independent Non-Executive Director of the Company for a cumulative term of more than nine (9) years, be and is hereby allowed to continue in office as an Independent Non-Executive Director of the Company."	

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

7.	Proposed Adoption of new Constitution of the Company to replace the existing Memorandum and Articles of Association.	Resolution 7 *(Please see Explanatory Note)*
	"THAT the existing Memorandum and Articles of Association of the Company be replaced in its entirety with a new Constitution as set out in Appendix I attached to this notice.	

8. 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)
SSM PRACTISING CERTIFICATE NO. 201908000717
Company Secretary

Petaling Jaya
25 October 2019

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 Share Registrar's Office at 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 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 31 December 2019 shall be regarded as member of the Company entitled to attend the 48th Annual General Meeting or appoint proxy/proxies to attend and vote on his/her behalf.

Explanatory Note To Ordinary Business:–

Resolution 2

Payment of Directors' fees and allowances in respect of the financial year ended 31 July 2019 are as follows:

Description	Amount (RM)
Directors' fees	266,000
Allowances (Payable to Non-Executive Directors only)	27,000
Total	293,000

Explanatory Note To Special Business:–

Resolution 6

Mr Yong Chee Hou has served as Independent Non-Executive Director of the Company since 11 January 2002.

The Nominating Committee and the Board having assessed his independence, recommend that he continue to act as an Independent Non-Executive Director of the Company based on the following justifications:

(a) he has met the independence criteria as set out in Main Market Listing Requirements of Bursa Malaysia Securities Berhad; and

(b) his length of service on the Board has not affected his ability to exercise independent judgement while acting in the best interests of the Company.

Resolution 7

The proposed adoption of a new Constitution ("Proposed Adoption") is mainly to ensure the provisions in the Constitution are aligned to the latest Bursa Malaysia Securities Berhad Main Market Listing Requirements and the provisions of the Companies Act 2016 that came into effect on 31 January 2017.

In view of the substantial amount of amendments to the existing Memorandum and Articles of Association, the Board has proposed to replace it in its entirety with a new Constitution as set out in Appendix I.

Shareholders' approval is hereby sought for the Proposed Adoption in accordance with Section 36(1) of the Companies Act 2016, which shall take effect once the proposed Resolution 7 has been passed by a majority of not less than seventy-five centum (75%) of such members who are entitled to vote and do vote in person or by proxy at the 48th Annual General Meeting.

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 2019, if approved at the forthcoming Annual General Meeting, will be paid on 10 February 2020 to Depositors registered in the Record of Depositors on 15 January 2020. 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 15 January 2020, 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)
SSM PRACTISING CERTIFICATE NO. 201908000717
Company Secretary

Petaling Jaya
25 October 2019

ADMINISTRATIVE NOTES

FOR SHAREHOLDERS/PROXIES

Attending the Forty-Eighth Annual General Meeting ("48TH 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 48th 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, except for those which have been marked "Reserved".

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 scheduled commencement of the AGM.

ADMINISTRATIVE NOTES
FOR SHAREHOLDERS/PROXIES
Attending the Forty-Eighth Annual General Meeting ("48TH 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.

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 shall cease at 12:00 p.m.. Shareholders and proxies who fail to collect the parking coupon by 12:00 p.m. shall bear the parking charges themselves.**

VOTING PROCEDURES

1. The voting at the AGM will be conducted by way of electronic polling ("ePolling"). The Share Registrar, Boardroom Share Registrars 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.

2019 ANNUAL REPORT

The 2019 Annual Report is available on KESM Industries Berhad's website at www.kesmi.com and Bursa Securities' 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 48th Annual General Meeting of the Company to be held at Connexion Conference & Event Centre, Spectrum & Prism (Level 3A), Nexus, Bangsar South, No. 7, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia on Wednesday, 8 January 2020 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*
Ordinary Business			
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 Lim Mee Ing as Director		
5.	Re-appointment of Auditors		
Special Business			
6.	Approval for continuation in office of Yong Chee Hou as Independent Non-Executive Director		
7.	Proposed Adoption of new Constitution of the Company to replace the existing Memorandum and Articles of Association		

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

Total Number of Shares Held	

Signed this ________ day of ________________ 2019/2020

____
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 Share Registrar's Office at 11th Floor, Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 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 31 December 2019 shall be regarded as a member of the Company entitled to attend the 48th Annual General Meeting or appoint proxy/proxies to attend and vote on his/her/its behalf.

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Affix postage stamp

The Share Registrar
KESM INDUSTRIES BERHAD (13022-A)
c/o Boardroom Share Registrars Sdn. Bhd.
(Formerly known as Symphony Share Registrars Sdn. Bhd.)
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan
MALAYSIA

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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